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Broadening innovation policy: New insights for cities and regions

Experimental Governance and Territorial Development

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Background information

This paper was prepared as a background document for an OECD/EC high-level expert workshop on "Experimental Governance" held on 14 December 2018 at the OECD in Boulogne-Billancourt, France. It sets a basis for reflection and discussion. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD or of its member countries, or of the European Union. The opinions expressed and arguments employed are those of the authors.

Broadening innovation policy: New insights for regions and cities

The workshop is part of a five-part workshop series in the context of an OECD/EC project on "Broadening innovation policy: New insights for regions and cities". The remaining workshops cover "Fostering innovation in less-developed/low-institutional capacity regions", "Building, embedding and reshaping global value chains", "Developing strategies for industrial transition", and "Managing disruptive technologies". The outcome of the workshops supports the work of the OECD Regional Development Policy Committee and its mandate to promote the design and implementation of policies that are adapted to the relevant territorial scales or geographies, and that focus on the main factors that sustain the competitive advantages of regions and cities. The seminars also support the Directorate-General for Regional and Urban Policy (DG REGIO) of the European Commission in their work in extending the tool of Research and Innovation Strategies for Smart Specialisation and innovation policy work for the post-2020 period, as well as to support broader discussion with stakeholders on the future direction of innovation policy in regions and cities.

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Executive Summary

This paper explores the "experimentalist turn" in governance studies and aims to assess its implications for inter-governmental relations in the multi-level polity on the one hand and for the place-based approach to innovation and territorial development on the other. Beginning with a conceptual discussion of experimentalist governance as developed by pragmatist scholars like Charles Sabel, the paper branches out to explore a range of experimentalist initiatives at the national level, focusing first on state-led experiments in political systems like China and Russia, where experiments are conducted under bureaucratic hierarchy and political decree. By way of contrast, more bottom-up state-sponsored experiments in liberal democratic systems are also explored and the paper addresses three prominent examples in the form of the New Industrial Policy paradigm, the Entrepreneurial State thesis and the Public Sector Innovation Lab.

As experimental governance initiatives are most prominent at the subnational level, the paper examines a range of place-based theories, covering well-known territorial concepts, such as regional innovation systems, city-regionalism and new localism, as well as more novel concepts such as foundational economy, universal basic services and constitutional political economy. Whatever their differences, all these place-based perspectives concur with the new conventional wisdom that the *quality of institutions* is of paramount importance for all types of places – for leading cities and regions that are striving to maintain their dynamism and for lagging cities and regions that aspire to become something other than they are today by tackling what the Barca Report called "the persistent underutilization of potential".

To underscore the significance of effective and democratic governance, the final section explores the scope for empowering subnational spaces by examining two important perspectives on place-based deliberative capacity, namely the *post-functionalist governance* thesis, which offers a new conception of regional authority and territorial belonging, and the *deepening democracy* perspective. The former is helpful because it situates the issues of regional authority and territorial identity in a multi-level governance framework, while the latter raises issues about local deliberative capacity and active citizenship in the context of asymmetrical power relations.

Urban and regional development is assuming more political importance at a time when territorial inequalities are fuelling polarised politics and nativist sentiments. Experimental governance initiatives can play an important role in a territorial repertoire that fosters rather than frustrates inclusive and sustainable forms of place-based development.

1. Introduction

The governance arrangements through which societies choose to manage their collective affairs are being challenged like never before. One of the key challenges is how to manage the competing claims of democracy, deliberation and devolution, what we might call the *governance trilemma*. How, in other words, should societies meet the demands of an increasingly polarised democracy; to what extent should citizens be allowed to deliberate in matters of everyday life beyond the ballot box; and what is the appropriate balance between centralising power in the name of solidarity and devolving power for the sake of subsidiarity? While these governance arrangements are intrinsically significant issues, ends in themselves so to speak, they also have an instrumental significance in the sense that they are the means to an end because they furnish the institutional structures and networks through which our models of development are framed and fashioned.

In territorial development circles for example, one of the most intensely debated issues during the past 20 years has been the *quality of governance* at all levels of the multilevel polity – in supra-national institutions, national governments and at the subnational level of cities and regions. A growing body of evidence suggests that the quality of institutions matters – not merely for the sake of economic growth but also for health, well-being, poverty reduction and the fight against corruption (EC, 2014; Pike et al, 2006). The quality of institutions is also an essential element in the repertoire of place-based policies to reduce territorial inequalities between leading and lagging areas. Uneven territorial development is attracting more and more political attention across OECD countries as it is widely believed to be fuelling the growth of noxious populist sentiments; so much so that even mainstream political commentators are warning that "the widening urban-rural divide suggests that the most explosive political pressures may now lie within countries – rather than between them" (Rachman, 2018).

One of the responses to these challenges has been a growing readiness to experiment with new governance arrangements and new models of development and the aim of this paper is to explore some of these experiments in the following way. Section 2 sets the theoretical scene by exploring what I call the "experimentalist turn" in governance studies. It offers a definition of experimental governance (EG) and explains why it has emerged as such an influential theme in the domains of theory, policy and practice. Beginning with a discussion of EG as originally developed by Charles Sabel and colleagues, the section broadens the frame of reference to assess the significance of EG for our understanding of multi-level governance issues like asymmetric decentralisation on the one hand and territorial development on the other.

The following sections adopt a more capacious and less restrictive view of EG by examining experimental governance at the national level, focusing on a range of state-sponsored experimentalist activities. Section 3 focuses on the top-down, state-driven experimentalist models that have characterised China and Russia. By way of contrast, section 4 explores the bottom-up experimentalist models that have featured prominently in liberal capitalist countries in recent years, namely: (i) the New Industrial Policy paradigm; (ii) the Entrepreneurial State thesis and (iii) the hybrid models of Public Sector Innovation Labs championed by the likes of NESTA.

Section 5 shifts the focus from the national to the subnational scale and addresses the territorial development literature by considering some prominent place-based theories of change, ranging from well-established theories (like regional innovation systems, city-

regionalism and new localism) to new theories that offer a radically different perspective on place-based innovation (like the foundational economy, universal basic services and constitutional political economy). Each of these theories contains its own place-based narrative about the interplay between governance and development and the aim of this exercise is to discover what – if anything – they add to our understanding of experimental governance.

Section 6 moves from place-based development issues to place-based *democratic* issues because EG has been criticised for being somewhat insensitive to accountability and transparency as well as for under-estimating the abiding significance of hierarchy and power. To address these democratic and deliberative dimensions, this section explores the scope for empowering subnational spaces by examining two important perspectives on place-based deliberative capacity, namely: (i) the post-functionalist governance thesis of Hooghe and Marks, which offers a new conception of regional authority and territorial belonging; and (ii) the deepening democracy perspective associated with the work of Fung and Wright. The former is helpful because it situates the issues of regional authority and territorial identity in a multi-level governance framework, while the latter raises issues about local deliberative capacity and active citizenship in the context of asymmetrical power relations.

2. The experimentalist turn in governance

The model of experimentalist governance developed by Charles Sabel et al was originally conceived as a response to the perceived failure of "command and control" governance mechanisms, a process that obliged front line actors to find joint solutions to common problems through experimental trial and error processes. Section 2 focuses on two key aspects of the model – namely the capacity for learning-by-monitoring in public sector bodies and the degree of autonomy and discretion afforded to local units in the multilevel polity – before branching out to consider applications of the model, firstly with respect to asymmetrical decentralisation, a new form of devolution in the multilevel polity and, secondly, with respect to the place-based approach to territorial development.

The governance literature has grown exponentially over the past two decades largely in response to the systemic changes wrought in states, markets and networks as firms and governments have sought to avail themselves of the opportunities and insure themselves against the vicissitudes of burgeoning globalisation and accelerating technological change. Impossible as it is to do justice to the nuances of this vast literature, the most important point to establish is that there are radically different interpretations of what these changes imply for the way we understand the nature and role of "the state" and its manifold relationships with economy and society. At one end of the spectrum we have the "governing without government" school of thought and its derivatives, which argue that government/state is now simply one among many actors in a broadly diffused system of "self-organizing, inter-organisational networks", a perspective that downgrades the status of government/state as the latter becomes progressively hollowed-out (Rhodes, 1996). At the other end of the spectrum there is the state-centric perspective that maintains that, far from being hollowed out, the state remains a central actor in the governance system of all countries even if its modus operandi have changed (Bell and Hindmoor, 2009).

Whatever the differences in interpretation, all governance theories seem to concur that the changes that have been wrought in advanced economies since the 1980s signal a growing inclination on the part of governments at all levels of the multilevel polity – national, regional and local – to experiment with new ways of working internally and new modes of interacting with their external interlocutors in the private and civic sectors. *Democratic experimentalism* is the most distinctive and compelling of these new governance theories and therefore we consider it first.

Democratic experimentalism: a pragmatist conception

Contemporary debates about experimentalist governance (EG) are closely associated with the seminal work of Charles Sabel (professor of law and social science at Columbia Law School) who has applied the concept to a wide range of issues, including place-based development in multi-level governance systems, social welfare reform and transnational regulatory agreements with respect to food safety, global supply chains and common pool resources (Sabel, 1994; 2005; 2012; Sabel and Simon, 2011; Sabel and Zeitlin, 2012; Dorf and Sabel, 1998). Philosophically, Sabel is a pragmatist in the American tradition of John Dewey (1859-1952) and the latter was one of the main inspirations for the concept of *democratic experimentalism*, the great merit of which is its capacity for learning and adaptation via robust inquiry and evidence.

In *The Public and its Problems (1927)* Dewey was primarily concerned to restate the case for democracy in the face of elitist arguments that claimed that society had become too complex to be governed by "the public", the notion of which was dismissed as a phantom, and that it was time to acknowledge that only technical experts had the requisite knowledge to govern (Lippmann, 1925). Part of Dewey's response was to propose a democratic method of inquiry in which all policies and proposals for reform would be treated as no more than working hypotheses. "They will be experimental", Dewey wrote, "in the sense that they will be entertained subject to constant and well-equipped observation of the consequences they entail when acted upon, and subject to ready and flexible revision in the light of observed consequences...Differences of opinion in the sense of differences of judgement as to the course which it is best to follow, the policy which it is best to try out, will still exist. But opinion in the sense of beliefs formed and held in the absence of evidence will be reduced in quantity and importance. No longer will views generated in view of special situations be frozen into absolute standards and masquerade as eternal truths" (Dewey, 1927: 203).

Deeply exercised by the asymmetrical relationship between experts and a democratic public, Dewey thought no government by experts could be anything other than "an oligarchy managed in the interests of the few" if there was no opportunity for citizens to express their needs. What was needed, he argued, was "the improvement of the methods and conditions of debate, discussion and persuasion. That is *the* problem of the public" (Dewey, 1927: 208). He portrayed this relationship between experts and the public through a simple analogy that perfectly illustrated the different (but equally important) types of practical and technical knowledge that each side possessed by saying that the man who wears the shoe knows best where it pinches, "even if the expert shoemaker is the best judge of how the trouble is to be remedied" (Dewey, 1927: 207).

To the consternation of posterity, however, Dewey had little or nothing to say about the form of institutional design, about how his democratic method of social inquiry and joint problem solving could be developed in and through concrete institutions. This is the intellectual vacuum that Sabel sought to fill when, in a penetrating essay on Dewey and Democracy, he outlined an ambitious new pragmatist agenda: "Democratic experimentalism addresses the problem of the design of pragmatist institutions and cognate problems of making and revising democratic decisions. The aim is not of course to try to say what Dewey might have or should have said, and still less to chide him for not saying it. Rather the goal is to make conceptually more cognizable and empirically more plausible a form of democracy, situated as today's must be in the uncertain flux of experience, sharing Dewey's aspiration of linking adaptive social learning and the greatest possible development of individuality, and assuming (from a combination of conviction and the assessment of experience) that these goals cannot be achieved by harnessing market mechanisms to the largest of public purposes" (Sabel, 2012: 37).

Sabel's concept of experimentalist governance (as democratic experimentalism came to be called) was developed as a response to the perceived failure of "command and control" regulation in a rapidly changing world where fixed rules written by a hierarchical authority are quickly rendered obsolete on the ground, where front line actors need to find joint solutions to common problems through experimental trial and error processes. In its most developed form, experimentalist governance (EG) involves a multi-level architecture in which four elements are linked in an iterative cycle: (i) broad framework goals and metrics are provisionally established by central and local units; (ii) local units are given broad autonomy and discretion to pursue these goals in their own way; (iii) as a condition of this autonomy, local units must report regularly on their performance and participate in a peer review in which their results are compared to others who are using different means to the same ends; and (iv) the goals, metrics and decision-making procedures are revised by a widening circle of actors in response to the problems and possibilities revealed by the peer review process, and the cycle repeats. In short, EG can be defined as "a recursive process of provisional goal-setting based on learning from the comparison of alternative approaches to advancing them in different contexts" (Sabel and Zeitlin, 2012: 169).

This model of EG is probably best described as intellectually compelling but politically challenging: compelling because it is predicated on a learning-by-monitoring methodology that is deliberative and evidence-based; but challenging too because public bodies, particularly public bodies in institutionally weak environments, may not have the capacity to rise to the EG challenge. As we will see later, some of the most challenging aspects of this model begin to emerge when we consider particular applications in concrete policy contexts – like the challenge of incorporating EG in the new regional innovation strategies and the challenge of practicing EG in marginalised communities and "left behind".

At the heart of this particular model is the claim that hierarchical management and principal-agent governance has been compromised by the advent of strategic uncertainty. The core of the argument runs as follows: one of the foundations of principal-agent governance is the monitoring of subordinate agents' conformity to fixed rules and detailed instructions; but in a world where "principals" are uncertain of their goals and how best to achieve them, they must be prepared to learn from the problem-solving activities of their "agents". As a result, "principals can no longer hold agents reliably accountable by comparing their performance against predetermined rules, since the more successful the latter are in developing new solutions, the more the rules themselves will change" (Sabel and Zeitlin, 2012: 175).

To give a foretaste of these challenges let us focus on two key propositions of the EG model, namely: (i) the commitment to and capacity for learning-by-monitoring in public sector bodies and (ii) the degree of autonomy and discretion afforded to local units in the multilevel polity and the alleged demise of hierarchy.

The first proposition involves two distinct but related questions – the *commitment* to learning-by-monitoring on the part of ruling politicians and their public sector managers and the organisation's technical *capacity* for learning-by-monitoring. The commitment to learning about what works where and why has been questioned by researchers across a wide range of disciplines, not least because it assumes that learning is extolled by politicians and managers as an organisational goal when in fact it tends to be subordinated to a whole series of other goals, like the retention of power and status for example. In other words a commitment to learning and innovation needs to be empirically established rather than theoretically presumed because experience and evidence suggests that politicians and policymakers "are not primarily interested in truth, reflexivity, and "what works". They primarily seek power, bureau expansion, popularity, reputation, and other goals. Knowledge can be used to gain legitimacy for ill-planned policy reforms or to justify prefabricated opinions. For this reason, learning may not be beneficial to politics and public policy-making" (Gilardi and Radaelli, 2012:165). Furthermore, even where there is a genuine political commitment to learning, it is by no means certain that the requisite technical capacity exists to realise the goal, one of the major barriers to learning in lagging regions as we'll see later (Marques and Morgan, 2018).

The second proposition, that local units are afforded sufficient autonomy and discretion to engage in local problem-solving activity, also needs to be empirically verified rather than presumed because, while the *rhetoric* of networked governance has certainly become de rigueur in both private and public sectors in recent years, the *reality* exposed in empirical surveys suggests that traditional hierarchies continue to loom large in the prosaic practices of organisations (Hill and Lynn, 2005). Sabel et al. freely admit that their model of EG belongs to the "optimistic" side of the postmodern family of views in holding that the absence of a controlling hierarchy of authority creates the conditions under which "local changes can have local effects, and that these effects can percolate horizontally and even upwards" (Sabel and Zeitlin, 2012:180). Although this experimentalist model is designed to create space for local innovation – and it certainly makes a powerful case for the transformative potential of local action where autonomy and discretion have been delegated to front-line units – serious questions remain about how much real authority has been devolved to the local level and how far hierarchical structures have been superseded by networked forms of multilevel governance, particularly in the less developed cities and regions of centralised and unitary states (Marques and Morgan, 2018).

Whatever its shortcomings the EG model proposed by Sabel et al. has provoked a lively debate in governance circles. In Europe the main criticisms have focused on fears that EG may harbour negative implications for traditional forms of representative democracy; that

it tends to downplay the abiding significance of hierarchy; and that it fails to appreciate that learning outcomes are tilted towards pro-market policy paths on account of the structural biases inherent in the political architecture of the EU's multi-level polity (for examples see Eckert and Borzel, 2012; Fossum, 2012). In the US some of the most strident criticisms have come from the social policy field, where democratic experimentalism is criticised because it allegedly assumes: consensus on the nature of problems; the propriety of government action; reliable metrics for measuring success; the luxury of time; the lack of situations requiring centralized policymaking; and the belief that deliberation is a relatively costless process. These assumptions, it is claimed, have not been met in anti-poverty law, where almost all progress has come not from decentralised local experimentation but, rather, from "centralized, non-participatory, and non-experimentalist policymaking" (Super, 2008: 541). While all these criticisms need to be more fully debated, they should not detract from the fact that the model of EG proposed by Sabel constitutes an immensely compelling case for devolved problem-solving capacity. Furthermore, by making the case for post-bureaucratic pragmatist institutions, he has helped to fill the intellectual vacuum bequeathed by John Dewey.

Asymmetrical decentralisation in the multilevel polity

The growth of multilevel governance studies has been fuelled by the enormous changes in the territorial architecture of state systems and these changes can be understood in experimentalist terms if we take a looser and more capacious definition of EG rather than the highly specific model discussed above. Reforming the territorial architecture of a state is a highly fraught endeavour because it needs to strike a judicious balance between solidarity and subsidiarity, two equally important institutional design principles in liberal democracies. A state that neglects the former runs the risk of losing its social cohesion and territorial integrity; while the neglect of the latter poses a threat to diversity, creativity and democracy, which could also jeopardise its territorial integrity. These territorial dilemmas are assuming more importance because of the growing trend towards *asymmetric decentralisation* (AD), where selected subnational jurisdictions are treated differently to their territorial peers on economic, political or administrative grounds. AD carries costs and benefits. Potential benefits are linked to the fact that institutional and fiscal frameworks can be better aligned with local capacities and may be better attuned to local needs. A comprehensive study recently concluded by saying that "asymmetric decentralisation favours experimentation, learning-by-doing and innovation in policy-making. Ultimately, it represents an advanced form of place-based policy" (OECD, 2018: 34). As regards the potential costs, AD can exacerbate inter-regional inequalities and, in extreme cases, trigger secessionist demands and movements. From an experimentalist perspective, AD needs to be managed in a transparent manner in which the rationale for extra powers is clear and there is a quid pro quo as to what is expected in return, a deliberative and results-driven process between central and local units.

AD is part of what has been called the "silent revolution" of decentralisation reforms that have been sweeping the globe since the 1980s (Ivanya and Shah, 2014). Because it is such a contentious topic, subject to so many claims and counter-claims between centralists and devolutionists, it is worth quoting a very sober review of the evidence which found that: "Decentralisation is not good or bad in itself. Its outcomes much depend on the way the process is designed and implemented, on adequate subnational capacity, and on the quality of multi-level governance. When it is properly conducted and balanced across policy areas, there is evidence that decentralisation may be conducive to growth. Beyond economic

benefits, decentralisation might allow enhanced accountability, transparency and citizens' engagement, thus improving democracy" (Allain-Dupre, 2018: 3).

According to the OECD, decentralisation has been an important international trend in governance for more than seventy years and it remains high on the political agenda of many countries today (OECD, 2018). While the degree of decentralisation is difficult to measure and compare, the OECD Fiscal databases and other relevant sources have shown that decentralisation is still on the rise in many countries. Data from the Regional Authority Index also show that 52 out of 81 countries experienced a net increase in decentralisation in the years 1950-2010 and only nine experienced a net decline (OECD, 2018; Hooghe et al., 2016).

As to the drivers of AD it has been shown that asymmetrical arrangements arise for at least three reasons: (i) *political reasons* to diffuse ethnic or regional tensions; (ii) *efficiency reasons* to achieve better macroeconomic management and administrative cohesion; and/or (iii) *administrative reasons* to enable subnational governments with differing capacities to exercise the full range of their functions and powers. The first type of asymmetry, *political asymmetry,* is clearly driven by non-economic concerns, while the latter are consistent with an administrative 'top-down' approach to decentralization (Bird and Ebel, 2007; OECD, 2018).

The different forms of AD also merit attention because there has been a distinct shift over time from regional forms to metropolitan forms as cities assume more importance in economic narratives (as "engines of growth" etc.) and in terms of their political weight (given burgeoning urban populations). The most conspicuous examples of metropolitan asymmetry involve the larger cities in each country, like the following examples:

- In France the 2013 French Law on Metropolitan Areas provided for differentiated governance for Paris, Lyon and Aix-Marseille that included governance structures with their own taxing powers and entailed a shift of competences from regions and departments. To justify the spread of AD arrangements, the French government said that "uniformity is no longer the condition of our unity";
- in Italy a 2014 reform ended two decades of gridlock over territorial restructuring by creating a new legal structure for the introduction of differentiated governance in ten major metro areas—Rome, Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples, and Reggio Calabria—and four additional cities in special regions—Palermo, Messina, and Catania in Sicily, as well as Cagliari in Sardinia;
- in the UK the Core Cities have been the chief beneficiaries of a series of City Deals that devolved certain powers to city-regions in exchange for their agreement to meet certain economic goals and to be governed by directly-elected metro mayors (OECD, 2018; Allain-Dupre, 2018; Waite and Morgan, 2018).

Beyond the large cities, AD arrangements have been introduced at the local municipal level as well. A prominent example being Denmark, where nine local municipalities were granted exemptions from government rules in order to test new ways of carrying out their service delivery tasks, in a policy experiment known as the *Free Municipality* initiative. The main focus to date has been on simplification, innovation, quality and a more inclusive approach to the individual citizen, with many of the experiments focusing on employment. The Free Municipality experiment is currently being evaluated, in order to form the basis for potential future legislation on de-bureaucratization for all municipalities. The concept of Free Municipalities continues in an adjusted form until 2019, and is currently being extended to more municipalities (OECD 2017).

For AD arrangements to work well there has to be sufficient capacity in the subnational jurisdiction that wishes to assume the new powers and functions. Aside from the obvious fiscal capacity issue, surveys frequently report the lack of key capacities – in terms of staff, skills, expertise, scale for example – to address complex issues such as strategic planning, procurement, infrastructure investment, performance monitoring, etc. For example, the OECD-CoR survey results of the 2015 survey on subnational obstacles to investment showed that institutional capacities of SNGs vary enormously *within* countries, in all countries surveyed (OECD/CoR, 2015). Given the emphasis on learning-by-monitoring in the experimentalist model discussed in the preceding section, it is instructive to note that 66% of the respondents in this survey said that, while they possessed a monitoring system, it was simply an "administrative exercise and not used as a tool for planning and decision-making" (OECD/CoR, 2015: 14).

Perhaps the most important question of all, however, concerns the impact of AD. The answer to this question will clearly depend on a whole series of related variables, such as the country context (unitary or federal state), the territorial form of AD (regional, metropolitan or municipal) and why it was introduced in the first place (political or administrative asymmetry). In the case of political asymmetry the ultimate test of any AD arrangement is whether it has helped to preserve the territorial integrity of the state, which would seem to be the case (at least to date) with respect to the Basque Country in Spain, Quebec Province in Canada and Scotland in the UK.

Sweden's AD experiments, which were initially focused on two "pilot regions" in Skåne and Västra Götaland, are also notable for two reasons: first, because they are good examples of bottom-up experimentation through voluntary county amalgamations; and, second, because they allowed the new jurisdictions to achieve things that might not have happened without such scaling-up. For example, one of the most innovative developments in Skåne concerns the creation of a biogas cluster as a result of the regional authority helping to calibrate supply and demand. Local experts who analysed the formation of the cluster concluded by saying:

> *"A decisive moment for the biogas industry in Scania was in 2007 when the regional government's public transport committee set up a goal that all public transport in the region should be fossil free in 2020, with sub-goals targeting fossil free city traffic (city buses) in 2015, regional traffic in 2018 and remaining service trips in 2020. In reaction to the announcement of these goals, the company running the public transport in the region—being a publicly owned company and part of the regional authorities—thereupon took the decision to invest in biogas. Important for this decision was the fact that the energy needed for the public transport should be produced locally in order to obtain a direct environmental effect in the region. Biogas was regarded as the fuel with the highest regional potential; attributed also to the increasingly developing regional specialization in biogas" (Martin and Coenen, 2015:2019).*

This regional example demonstrates that while an AD arrangement might be introduced for administrative reasons – to secure economies of scale in service provision for example – it can deliver multiple benefits, in this case building regional institutional capacity that was able to deploy its powers (including public procurement power) to help calibrate supply and demand to fashion a new regional industrial cluster as well as deliver a more sustainable climate-friendly public transport system.

The process of assessing the overall impact of AD arrangements needs to be an evidence-based exercise to demonstrate the costs and benefits in a transparent manner, a process that

provides confirmation to other areas that the asymmetrical scheme is above board because, as a territorial experiment, AD carries risks and opportunities. On the positive side it can enable places that have the capacity – be they cities, regions or municipalities – to explore more inclusive and sustainable ways of promoting service delivery and area-based development. Some proponents of decentralized local governance even claim that it is "associated with higher human development, lower corruption, and higher growth" (Ivanyna and Shah, 2014). On the negative side, however, the case against devolving decision-making is made with equal vigour by scholars who point to the "dangers of decentralization", such as macro instability, the threat to territorial equity and the potential for more corruption due to the greater propensity for clientelistic relationships (Tanzi, 1998; Treisman, 2007). Such polarised debates are best resolved in a Dewey-like fashion through rigorous inquiry and public debate informed by a robust evidence base, which is precisely what a recent OECD review recommended, saying:

> *"Asymmetric decentralisation should be seen as an experiment. Therefore, there should be a system in place for the central government to evaluate the effects of asymmetric arrangements, at least as part of a more general evaluation of the services in question. A high quality impact evaluation enables informed policy changes which may be critical for successful implementation. The evaluation programs should be planned well ahead and in close cooperation with researchers and other experts of impact evaluation. A considerable effort should be put on spreading the good practices and the lessons learned from the asymmetric decentralisation policies" (OECD, 2018: 39).*

To the extent that AD involves the devolution of power as opposed to the mere delegation of functions, it creates new challenges for the multilevel polity because devolving power does not mean (or should not mean) abdicating responsibility on the part of central government. Evidence and experience suggest that the *vertical* coordination of authority remains one of the most difficult policy challenges in a multilevel polity because surveys have found debilitating "coordination gaps" between national and subnational governments, especially in unitary state systems (Charbit and Michalun, 2009; Allain-Dupre, 2018). These vertical coordination gaps can seriously frustrate the mobilisation of investment and compromise the best-laid plans for territorial development.

Experimentalism and the place-based approach

To complement the foregoing analysis of inter-governmental experiments, this section explores the experimentalist approach to territorial development with respect to the *place-based approach* advocated in the Barca Report, *An Agenda For A Reformed Cohesion Policy* (Barca, 2009). Ten years on from the publication of the Barca Report, this section reflects on the experimentalist principles of the place-based approach in the light of a decade of experience. The Barca Report was a prodigious intellectual achievement based on an unprecedented process of engagement and debate involving a series of hearings with officials and academics and ten specially commissioned thematic reports. From an EG perspective the significance of the Barca Report is twofold. First, it was the first mainstream report on territorial development to formally acknowledge and fully embrace the core principles of democratic experimentalism. Second, it offered the most sophisticated intellectual justification for an integrated place-based approach to territorial development, signalling a decisive break with past forms of cohesion policy in the EU, many of which were essentially compensation payments for lagging regions.

Re-stating the case for a place-based approach was an urgent task in the first decade of the new millennium, politically and intellectually, because many policymakers in OECD

countries had become mesmerised by ideas associated with the so-called New Economic Geography, which among other things breathed new life into some very old neo-classical economic nostrums. Perhaps the most famous example of this new/old thinking was the 2009 World Bank Report, *Reshaping Economic Geography*, which championed a "spatially-blind" approach to development by recommending policies that are designed without any explicit reference to space because: "Explicitly spatial policies are not generally necessary. Universal or spatially blind institutions— made available to everyone regardless of location—form both the bedrock and the mainstay of an effective integration policy" (World Bank, 2009: 24). Notwithstanding its title, the World Bank report set aside the significance of geographical context with its binary emphasis on people not place, neglecting all the evidence in and beyond economic geography that showed that development was a *place-dependent* as well as a path-dependent process in which spatially targeted policies have been highly consequential for cities, regions and countries (Storper, 1997; Cooke and Morgan, 1998; Rodrik, 2008). Although it is barely a decade old, the World Bank vision quickly lost its lustre for policymakers because the place-based approach is now de rigueur in international policy circles. For its critics, on the other hand, the main problem with the World Bank analysis was that it was quite simply wrong, especially as regards the antediluvian notion that spatial inequalities would be tempered and reduced through the twin effects of labour mobility and trickle-down growth (for other critical assessments see Rodriguez-Pose, 2010; Barca et al, 2012).

In contrast to the so-called "spatially-blind" approach (a highly erroneous term because policies that are allegedly non-spatial in principle are inevitably spatially uneven in practice) the place-based approach is predicated on a number of fundamentally different propositions, two of which are highly pertinent to the experimentalist perspective. The first is that *geographical context* really matters, and context is understood here in the multidimensional sense to include social, cultural, political and institutional specificities. The second proposition is that *knowledge and power* also matter in the design and implementation of territorial policies: the role of multilevel governance is critically important here because no single level of government has sufficient knowledge to know what works where and why, hence the need for local knowledge to be elicited from local actors and for extra-local knowledge (and pressure) to be brought to bear if and when local elites are unable or unwilling to tackle the "persistent underutilization of potential" (Barca, 2009: vii).

In this multilevel architecture, as the Barca Report conceived it, the upper levels of government are supposed to set the general goals and the performance standards to establish and enforce the "rules of the game", while the lower levels have "the freedom to advance the ends as they see fit" (Barca, 2009: 41). The ultimate purpose of exogenous intervention in this scenario is to induce local agents to commit their energy, knowledge and resources to tackling untapped potential in their territory. But what if they fail to do so by engaging instead in rent-seeking and gaming the system? The antidote to this danger, according to Barca, is to utilise the key principles of democratic experimentalism, namely to make the local decision-making process verifiable, open, experimental and inclusive. In other words to establish the following principles:

- a clear identification of *objectives and standards*, measured by validated indicators, which can be compared with what happens elsewhere and which are open to monitoring and public debate;
- a permanent *mobilisation of all interested parties*, stimulated by exogenous interventions, by the injection of information on actions and results;
- an *experimental approach* through which collective local actors are given an opportunity to experiment with solutions while exercising mutual monitoring, and

> alternative measures are tried and compared through a systematic learning process, where the results are used to design new interventions (Barca, 2009: 45).

In specifying the above principles of the place-based paradigm, the Barca Report graciously acknowledged its debt to the experimentalist governance thinking of Sabel and his colleagues, which appealed to Fabrizio Barca primarily because it combined bottom-up localism and agent empowerment with the top-down pressure for standards and testing, which meant that "conditionality and subsidiarity can be combined by making the most of accumulated experience and by conceiving contracts as a means of learning" (Barca, 2009: 44).

But in the light of the past ten years, what are we to make of the Barca Report today? As the report was the first to fully embrace the principles of democratic experimentalism, it seems only fair and reasonable to say of the report what we earlier said of Sabel's experimentalist model: that it is intellectually compelling but politically challenging. Two examples will have to suffice to illustrate the point.

The first example concerns the lower level units in the multilevel architecture discussed above. These lower level units, be they localities or regions in the EU cohesion policy system, are deemed to have the freedom to experiment so as to advance the ends that they see fit for their jurisdiction. In reality, however, local units have been literally overwhelmed by and imprisoned in a bewildering array of rules and regulations that collectively constitute the EU audit system. Local agents experience a profound disconnect in dealing with EU cohesion policy because, at the rhetorical level, they are enjoined to be agile, creative and experimental, but in reality they feel heavily constrained by a compliance culture that is the kiss of death to local creativity. This problem of over-regulation is a truly enormous problem and it should not be dismissed as a purely ideological trope of neoliberal critics of cohesion policy. Regulatory overload has provoked calls for simplification for many years and recently the High Level Group on Simplification said that urgent action was necessary because the problem was undermining the credibility and the efficacy of cohesion policy: "Over the years, to counter the criticism and eliminate mistakes, more rules have been added at European and national levels which, rather than helping, are now undermining the trust in the ability of beneficiaries, regional and national administrations to manage and use the funds in a sound and efficient manner. The volume of rules for Cohesion Policy alone, including more than 600 pages of legislation published in the Official Journal (more than double that in the period 2007-2013) and over 5000 pages of guidance, has long passed the point of being able to be grasped either by beneficiaries or by the authorities involved" (High Level Group, 2017:2). In the absence of radical simplification, the experimentalist principles of the place-based paradigm stand no chance of being realised in practice.

The second example concerns the upper level of the multilevel architecture. The upper level units – principally the European Commission in the case of EU cohesion policy – were allotted very exacting tasks in the Barca Report, but did they have the capacity to fulfil them? In the case of the European Commission, for example, the Barca Report was adamant that a stronger Commission was essential to the success of the entire place-based paradigm. Of the ten pillars for reform, pillar 8 called for "refocusing and strengthening the role of the Commission as a centre of competence". Among other things this entailed enhancing its position externally vis-a-vis Member States as well as internally to promote more internal cooperation between its notoriously balkanised directorates. A major investment in human resources was recommended to expedite these reforms and to redress the deficits in knowledge and skills, a deficit that is also evident at Member State level. Although all these proposals were/are perfectly sound, they have never been put into effect for a whole series of reasons, not least because of political opposition to a stronger Commission from Member

States and because the Commission itself continues to suffer from a chronic shortage of staff with strategic design and delivery skills and because the *mix of skills* is such that the compliance function vastly outweighs any creative function (Morgan, 2016).

That the promise of the place-based approach has not been realised in practice will not come as a surprise to its architect - on the contrary, Fabrizio Barca has been one of the first to concede the point. In a keynote address to the Seventh Cohesion Forum in 2017, Barca bemoaned the fact that the most important changes associated with the current cohesion policy, namely orientation to outcomes, conditionality and true partnership, "are well known only within the domain of officials and practitioners, but have not become food for thought and public scrutiny for politicians and citizens. The increased role of the Commission has remained entrusted to the capacity of officials, and it has been encumbered by the fragmentation of European Structural and Investment Funds, the escalating burden of auditing and the lack of new human resources" (Barca, 2017: 5). To redress these problems he suggested that the Commission should simplify the regulatory system, help repair "the broken bridge between people and elites" and undertake a major investment to equip itself with a truly developmental skill set by creating:

> *"a new generation of qualified development experts, coming from all the different fields required for this job, and carrying all over Europe the culture and the insights of their countries of origin. Just to be clear: I mean 500 new human resources, recruited for their competence, critical awareness and "mission publique" and responding directly to the unified Directorate or being part of it – however, not organised as "technical assistance". They would be spending most of their time and energy in the places where strategies and projects are designed and implemented, and would soon be identified by the citizens of Europe as the "European pioneers of a close and innovative Union". It would cost no more than two or three megaprojects and its return would be incomparably higher" (Barca, 2017: 7).*

Compelling as they are, these experimentalist proposals are not likely to resonate in a European Commission that is currently engaged in an unprecedented series of urgent firefighting tasks – migration from without, authoritarianism from within and the imponderables of Brexit among others. Even so, the EU needs to ensure that the urgent items on its agenda do not sideline the important items and territorial development is certainly one of the latter items; so much so that the integrity of the EU as a multilevel polity will stand or fall on its capacity to harness the twin principles of solidarity and subsidiarity to create territorial development opportunities for all parts of the Union.

3. State-led experimentalism: top-down models

Section 3 aims to demonstrate that the modalities of experimentalist governance are not confined to liberal democratic political systems, with China and Russia being prominent examples. Although they are frequently grouped together, the differences between China and Russia are arguably more important than what they have in common. For example, the Chinese experience is particularly instructive because it demonstrates that local experiments can thrive under the most elaborate hierarchies if there are well-established mechanisms and procedures for nurturing and scaling them. In Russia, however, the "rules of the game" for political behaviour and economic development are so precarious and protean that there are few incentives to experiment with novelty, with the result that innovation is frustrated by the state rather than fostered.

Some of the most important questions in comparative governance and territorial development studies revolve around how and why the role of the state varies so much between (apparently) similar capitalist economies and why its interventions have such different outcomes from one spatial context to another? One of the great merits of the early "Varieties of Capitalism" literature was that it sought to address this question directly by exploring the institutional mix of states, markets and networks (Hall and Soskice, 2001). In the original version there were just two varieties on offer - the "liberal market economies" typical of Anglo-American capitalism and the "coordinated market economies" like Germany and Japan. Each variety had its strengths and weaknesses: the liberal variety was alleged to be more conducive to radical innovation and price-sensitive mass production, while the coordinated variety was said to be better attuned to incremental innovation and quality-focused flexible specialization (Hall and Soskice, 2001). Since that time it has become clear that new varieties of capitalism have emerged that cannot be accommodated by the two original variants, both of which were predicated on a *firm-centric* perspective. Burgeoning state capitalism – especially in The People's Republic of China (China hereafter) and Russia - means that we now have to extend the spectrum of "varieties of capitalism" because the *state* rather than the firm is arguably the key unit of analysis in these cases of authoritarian capitalism (Zhang and Peck, 2013; Kinossian and Morgan, 2014). In this section we examine state-led experimentalism in China and Russia as these are the two most prominent examples of state capitalism in the world economy today.

China: experimenting under hierarchy

It is well known that China's emergence as a world economic power owes much to the state/market interplay, of state-push and market-pull, a unique combination of political power and economic pressure in a governance system where the continuity of one-party control has been without precedent in modern times. What is less well known is that *experimental governance* – often erroneously assumed to be confined to liberal democratic systems - played a major role in China's development before and after the "Open Door" era began in 1978 and that this governance repertoire helps to explain how the Chinese Communist Party has managed to secure continuity and change, stability and novelty. This observation owes a great deal to the work of Sebastian Heilmann (on whom this section draws heavily) who says: *"China's experience attests to the potency of experimentation in bringing about transformative change, even in a rigid authoritarian, bureaucratic environment, and regardless of strong political opposition [...]. At the heart of this process, we find a pattern of central-local interaction in generating policy – "experimentation under hierarchy" – which constitutes a notable addition to the repertoires of governance that have been tried for achieving economic transformation"* (Heilmann, 2008b: 1).

According to this view, the origins of the Chinese Communist Party's political commitment to decentralised experimentation began in the 1920s, when Mao and his colleagues fell under the spell of John Dewey, whose lectures in China in 1919 and 1920 were very influential, not least because of the stress on learning-by-doing. Dewey taught that *"There can be no true knowledge without doing. It is only doing that enables us to revise our outlook, to organize our facts in a systematic way, and to discover new facts"*. Dewey's Chinese followers presented experimentation as the core of the Deweyan approach to social reform and they even translated "pragmatism" as shiyan zhuyi, a term that in a literal translation means "experimentalism" (Heilmann, 2008a: 18). The great paradox here is that China's communist heritage has been tapped to fashion a successful governance model that has propelled the Chinese economy into the second biggest capitalist country in the world today.

Although various experimental mechanisms have been utilised to promote development since 1978, the most important territorial method according to Heilmann has been the "experimental zones" (local jurisdictions with broad discretionary powers). The most prominent of these are China's special economic zones, the most famous of which is the Shenzen Special Economic Zone, which is deemed to be the most active on account of its proximity to Hong Kong and because it generated more than 400 pieces of new economic regulation between 1979 and 1990 and "exerted a strong influence on national economic legislation with regard to foreign trade and investment" (Heilmann, 2008b:8). While liberalisation was initially confined to the special zones on the southern and eastern coast, the territorial vehicles of China's experimental economic governance model, the open door policy was extended from the coastal regions to the whole country after 1992 (Yang, 1997).

Most experimental efforts are initiated by local policymakers who aim to tackle pressing local problems and pursue personal career progression at the same time, but in doing so they need to *"seek the informal backing of their pilot efforts by higher-level policy patrons...In a hierarchical system, bottom-up experimentation goes nowhere without higher-level patrons or advocates who are indispensable in propagating and rolling out locally generated policy innovations...Neither works without the other. The dynamics of the experimental process rest precisely on this interplay"* (Heilmann, 2008b: 10). This raises one of the problems of Chinese-style experimentation, namely that experiments that do not immediately benefit local elites have little chance of surviving let alone of being scaled up to national level. One of the most fascinating aspects of Heilmann's analysis revolves around the uneven impact of this repertoire of experimentation under hierarchy: *"Experimentation resulted in transformative change only in those domains in which new social actors, in particular private entrepreneurs and transnational investors, were involved most actively and worked to redefine the entrenched rules of the game and power configurations...In policy domains that remained under the control of vested state interests and in which state actors tended to lock in partial reforms, as in SOE management (from 1978 to mid-1990s) or stock market regulation (1990-2005), extensive experimentation produced incremental innovation at best"* (Heilmann, 2008b: 20).

The unexpected success of this central-local governance repertoire presents problems as well as opportunities, two of which will be especially difficult to resolve. First, the translation of locally successful projects into nationally-sponsored policy initiatives seems to depend as much on patronage, clientelism and rent-seeking within the Chinese multilevel polity as it does on the intrinsic merits of the experimental project. Second, the high premium set on local experimentation fuels the predatory behaviour of the subnational state, which has used the sale of land-use rights as a principal means of funding overly ambitious urban development projects, spawning a series of "ghost towns" in the process.

The urbanisation of economy and society in China has been driven by the interplay of central state directives and self-referential local responses that make it difficult to coordinate policies, plans and infrastructure. Although cities command most political attention, urban scholars argue that suburbs are rapidly becoming the frontier of Chinese urbanization because: *"The suburbs absorb a vast amount of capital flow – through the development of middle class estates and key infrastructure projects leading to an expanded transport network, export processing zones, science and university towns, new towns, and eco-cities. Territorial development has become an indispensable element of the growth machine, while state entrepreneurialism arising after economic devolution and globalization secures the conditions for suburban development"* (Wu and J. Shen, 2015:319).

Experimenting with new forms of territorial development has been a quintessential feature of China's economic model since 1978. Although territorial experiments tend to focus on

economic development issues, they are assuming more and more importance in exploring "quality of life" issues, such as new forms of affordable housing, new healthcare systems.

Among the territorial experiments underway in China today by far the most ambitious is a new zone south of Beijing in a megaproject heralded by state media as the most significant one of its kind in a quarter century. The new economic zone – *Xiongan New Area* – is designed to facilitate the economic integration of Beijing, Tianjin and Hebei province. Although China has created many special zones to experiment with more free-market oriented policies and encourage private and foreign investment, Xiongan New Area is the first to enjoy the same national status as the Shenzhen SEZ and the Shanghai Pudong New Area, making it "China's third economic engine". The new area's special mission is "to deepen institutional reform, explore ways to build smart and ecologically friendly cities, develop better infrastructure and efficient transportation networks, and pursue further opening-up in a comprehensive way" (Xiaoqi, 2017).

There is some debate surrounding this initiative. Although Xiongan is often compared to Shenzhen and Pudong, the comparison may not be entirely precise because:

> *"Shenzhen and Pudong are adjacent to Hong Kong and old Shanghai, but Xiongan is much further away from Beijing. It is an inland area, in contrast to Shanghai and Shenzhen, which are world-class ports. Hong Kong and Shanghai have been commercial centres in China's modern history. The Yangtze River Delta, which anchors Shanghai, was a leading economic region of the world for centuries. While Tianjin was a commercial and financial centre in the Republican era, Beijing was neither a city of commerce nor of industry before 1949. This part of China lacks an established commercial tradition... The will of the state is not enough when it comes to effective regional development. While Beijing pushed and nudged, it was the market which ultimately made Shenzhen and Pudong the successes they are. Beijing should realise that it will be no different for Xiongan – and the art of unleashing market forces for a region like Xiongan will be a lot more challenging " (Mok, 2017).*

Xiongan will be the biggest test yet of the state's megaproject capacity. But this new test will have to be accomplished alongside a much older and no less intractable test, which is how to secure more collaboration between cities and their surrounding regional hinterlands, the urban challenge of city-regionalism. The research of Li & Wu (2017) on city-region development in China's Yangtze River Delta (YRD) provides a clear example of how inter-governmental relations between regional and national governments shape the prospects for intra-regional cooperation and coordination. The YRD, like other Chinese regions, continues to feel the impact of a profoundly hierarchical administrative system, coupled with administrative decentralisation to local government (which itself consists of four levels). These administrative borders have proved particularly resistant to boundary-spanning initiatives, not least because it is at the local level that party political reputations are forged. As a consequence, bottom-up initiatives aimed at addressing regional needs find themselves in competition with the priorities of other constituent jurisdictions.

If bottom-up collaboration presents a challenge in the YRD region, so does top-down planning. Following previous abortive attempts to stimulate regional working, in 2010 a centrally-commissioned YRD Regional Plan was approved. Yet while this provides a framework for the region, it provides for neither the structures nor the funding that would underpin its implementation, and local authorities continue to lack the powers to enact cross-boundary initiatives. In addition, the level of detail written into the plan serves to constrain

"local discretion" and *"impose [central government's] regional vision upon locally initiated development"* (Li and Wu, 2017: 317).

The twin challenges of megaproject planning in Xiongan and city-regionalism in the YRD region are reminders that centralised political power, no matter how concentrated in one party or one person, has limits that no amount of local experimentation can transcend. But since it has achieved so much in the past thirty years, it would be foolish to discount the power of this distinctive model of experimentation because: *"the unexpected capacity of the Chinese party-state to find innovative solutions to long-standing or newly emerging challenges in economic development rests on the broad-based entrepreneurship, adaptation, and learning facilitated by experimentation under hierarchy. The combination of decentralized experimentation with ad hoc central interference, which results in selective integration of local experiences into national policymaking, is a key to understanding how a distinctive policy process has contributed to China's economic rise"* (Heilmann, 2008b:23).

Russia: development by decree

Western theories of governance may be less helpful than we think in studying territorial development in Russia, not least because the conventional idea of post-socialist transition, which implies a gradual shift to Western-type liberal democracy, may not be fully suited. Much more relevant is the concept of the "dual state", which conveys the idea that the legal-normative system based on constitutional order is systematically challenged by opaque or arbitrary arrangements populated by contending factions in and around the Kremlin: *"The tension between the two is the defining feature of contemporary Russian politics"* (Sakwa, 2011: viii).

The dual state is a by-product of the re-assertion of the "strong state", the hallmark of the Putin presidencies. The rise of a strong central state, based in the Kremlin, was established under the first Putin presidency through political campaigns against regional governors and business leaders, the two biggest threats to the Kremlin's authority in the 1990s. The abolition of direct gubernatorial elections in favour of an appointment system between 2005-2012 reduced the political authority of regional governors. New rules introduced in 2012 made it practically impossible for candidates not endorsed by the Kremlin's United Russia party to register as candidates for gubernatorial election.

Macro-political developments in Russia are critically important to an understanding of the balance of power in the governance system of the Russian Federation, where territorial experiments are only possible if they secure the political patronage of the central government. Since the collapse of the Soviet system, planners in Russia have been trying to develop a new spatial matrix for the Russian economy that would secure growth and at the same time address significant spatial disparities without suffocating growth (Kinossian, 2013).

Territorial development policy in recent years has revolved around large cities as the hubs of Russia's new economy. The 'metropolitan turn' in Russian spatial policy aims to spatially rebalance the Russian economy around new urban centres that would become new engines of growth for the Russian economy. These plans have been informed by the city-centric narratives of economic development prevalent in the West because: "The urge to modernise Russia's economy, and the fascination with the achievements of the leading economic powers, have led to a simplistic notion that growth can be achieved by replicating physical structures that embody and symbolise the success of Western economies. Spatial structures in the West came about through the evolution of economic and political institutions.

Reconstructing the end-product of capitalist urbanisation would not necessarily generate innovation, diverse economic structure, and growth" (Kinossian, 2016: 9).

The most ambitious example of the 'metropolitan turn' in Russian spatial policy is the *Skolkovo* megaproject, which aims to create a regional innovation cluster on a 400 hectare greenfield site on the southwest outskirts of Moscow, a project that was dubbed the Russian "Silicon Valley" (Clover, 2010). The centre would focus on the 'five presidential high-tech sectors', including energy, IT, telecommunication, biomedical and nuclear research, and drew parallels with Silicon Valley. In common with other mega-projects, the state took the lead in initiating the project as the implementation of the project required special governing arrangements. In May 2010, a non-commercial organization, the *Foundation for Development of the Centre for Elaboration and Commercialization of New Technologies* was created to manage the Skolkovo project. In order to create enabling regimes for customs, taxation, immigration and administration, a special federal law was passed to exempt Skolkovo from various Russian legal norms and regulations. According to the law, the project aimed 'to create and support operation of an autonomous territorial complex dedicated to research and development and commercialization of deliverables thereof'. To establish the intellectual credentials of the megaproject, the Skolkovo Institute of Science and Technology (Skolkovo Tech) was established in 2011 in collaboration with the Massachusetts Institute of Technology (MIT) to conduct research and teaching within the five strategic research priorities. Critics challenged the plans to create an entirely new research complex rather than upgrading existing research facilities located in Russia's 'science towns', at a lower cost. The conflict between the established research institutes of the Russian Academy of Sciences and the Skolkovo community only increased when it was reported that some USD 302.5 million of government funding for the megaproject would be allocated to MIT as a development grant for designing the Skolkovo Tech strategy (Kinossian and Morgan, 2014).

The Skolkovo megaproject began to unravel amidst a spate of financial scandals and political faction fights within the dual state, with the result that major supporters gradually withdrew from the project. Furthermore, the plans to involve top international corporate brands in the Skolkovo project are threatened by sanctions imposed by the international community, illustrating how the *geopolitical* ambitions of the strong state are at odds with its *economic* ambitions.

An equally ambitious territorial experiment is underway in the Arctic, where the Russian strategy is founded on a combination of economic and geopolitical considerations. In economic terms the Arctic has been targeted as a rich resource base to enhance Russia's status as an energy superpower, while in geopolitical terms it is an expression of national power and prestige.

With the advent of the Arctic as a strategic national priority, the northern regions have been obliged to factor this new priority into their own territorial development plans. Given the high level of fiscal dependency of regions on the centre, the governance system has created a highly competitive regime for accessing federal funding. Success in securing federal grants largely depends on the ability of regional leaders to convince Moscow of their development plans, consequently regional elites feel obliged to align their development strategies to the shifting preferences of the centre (Kinossian, 2012). Russia's Arctic zone stretches along the coastline from Murmansk Oblast' to Chukotka and it straddles several regions. Given the top-down dynamics of the federal fiscal system, it was not surprising that, to benefit from the growing interest of the central government in Arctic expansion, the Government of Murmansk Oblast' decided to revise its own strategy to reflect the new national priorities, positioning itself as a strategic centre of the Russian Arctic. As in the

Skolkovo case, Moscow designs special territorial provisions for priority regions when they commit to national goals, but this can be a mixed blessing for the regions concerned because national priorities can suddenly change, and the subsidy flow takes a new direction. The territorial experiment in the Arctic provides important insights into central-local dynamics in the Russian Federation because: *"In practical terms, despite the rhetoric of the strong developmental state, policies are often unrealistic, poorly coordinated, and switch between shifting priorities as a result of the protean politics of the Kremlin […]. Although the country is increasingly governed from Moscow, the regions are not mere recipients of plans and performance indicators designed within the uppermost tier of government. In modern Russia, regions construct their policies to meet the developmental priorities of central government. The priorities of the federal centre are often incoherent, lack realistic strategies for implementation, and shift over time, thereby complicating the work of regional policy makers"* (Kinossian, 2016: 233).

But the key point to make about Russia today is that the Kremlin's politics has sought to eliminate competition and promote concentration of resources and political power in the hands of a small elite. This limits the scope for the kinds of local experimentation that are crucial to an enormously diverse country like the Russian Federation. Innovation and territorial development depend on local experimentation and development by decree is the antithesis of locally-based experiments.

4. State-sponsored experimentalism: bottom-up models

Section 4 explores the state-sponsored models of experimentalist governance that are underway in OECD countries. Three of the most prominent models are explored in detail, namely the new industrial policy paradigm associated with the work of Dani Rodrik, the entrepreneurial state thesis developed by Mariana Mazzucato and the public sector innovation lab championed by the likes of NESTA. Although each of these initiatives aims to tackle the challenge of novelty, the section argues that they all face a common problem in the form of a risk-averse public sector culture, which means that government and its public sector bodies invariably find it difficult to negotiate such things as failure, feedback and learning. Unless the public sector learns to adopt a higher threshold for failure and becomes more risk-aware and less risk-averse, the section suggests that these bottom-up models of experiments are unlikely to realise their potential.

The state-sponsored models considered in this section provide a stark contrast to the state-led models in China and Russia. Three bottom-up models are examined in turn – the new industrial policy paradigm, the entrepreneurial state thesis and the rise of the public sector innovation lab.

The new industrial policy paradigm

Perhaps the most striking development in economic policy in OECD countries over the past fifteen years has been the rehabilitation of industrial policy as a legitimate and indeed necessary part of the repertoire of state engagement in the knowledge economy. Governments of all political persuasions have embraced a version of industrial policy for some or all of the following reasons. First, a unique set of systemic challenges – like accelerating technological change, burgeoning globalisation, labour market polarisation and the ecological threats of climate change for example – has persuaded governments that they need to alter the character of economic growth to render it more ecologically sustainable and more socially inclusive. Second, the financial crises of the past decade exposed the way that laissez-faire policies have encouraged excessive development in non-tradable sectors (like property speculation) at the expense of tradable sectors that are more sustainable. Third, the rapid development of China as a world economic power has been partly attributed to its targeted state policies and this has induced other countries to defend their markets and technologies through industrial policies that are increasingly informed by national security concerns. Finally, the mainstream intellectual environment is becoming less tolerant of neoliberal binaries, such as private v public and market v state, and more receptive to the idea that a judicious combination of states, markets and networks is what really matters (Aghion et al, 2011; Rodrik, 2007; Acemoglu and Robinson, 2013).

No one has done more to rehabilitate the credentials of industrial policy than Dani Rodrik, beginning with a highly influential paper for UNIDO in 2004 that was aptly called *Industrial Policy for the Twenty-First Century* (Rodrik, 2004) and republished later in a book of essays called *One Economics, Many Recipes* (Rodrik, 2007).

Rodrik has sought to establish the intellectual credentials for a dynamic and enlightened industrial policy by addressing two objections that neo-liberal critics invariably employ to discredit state intervention. The first concerns the informational objection, which maintains that states cannot "pick winners" because they can never possess all the necessary information to do so, the Hayekian argument. The second objection is that industrial policy inadvertently encourages corruption and rent seeking behaviour by diverting corporate attention from entrepreneurial activity to lobbying and more noxious activity (Rodrik, 2007). To overcome these problems Rodrik identifies three institutional design features for a smart industrial policy, namely embeddedness, discipline and accountability.

- The concept of "embedded autonomy" was first developed by Peter Evans to account for the role of state agencies in South Korea, where they were embedded in but not beholden to business networks that allowed them to learn about the bottlenecks to innovation and development. Rodrik draws on this concept to argue that the best way to think about industrial policy is in terms of *"a process of discovery, by the government no less than the private sector"*.
- Second, to mitigate the risks of corruption and rent seeking behaviour, the industrial policy process needs to incorporate more rigorous forms of discipline. In short, *"discipline requires clear objectives, measurable targets, close monitoring, proper evaluation, well-designed rules and professionalism. With these institutional*

safeguards in place, it becomes easier to revise policies and programs along the way, and to let losers go when the circumstances warrant it" (Rodrik, 2013:28).

- The third element of the institutional architecture for enlightened industrial policy is public accountability. Public agencies need to explain what they are doing and how they are doing it and they must be as *"transparent about their failures as their successes"* (Rodrik, 2013: 28).

As Rodrik freely concedes, these ideas have much in common with Charles Sabel's concept of experimentalist governance, which emphasises the shortcomings of the hierarchical, principal-agent model. Because the principal-agent model is not well suited to volatile environments, not least because it assumes an ex-ante omniscience on the part of the principal which is unwarranted, what is needed instead *"is a more flexible form of strategic collaboration between public and private sectors, designed to elicit information about objectives, distribute responsibilities for solutions, and evaluate outcomes as they appear. An ideal industrial policy process operates in an institutional setting of this form"* (Rodrik, 2004:18).

With its emphasis on the processing and aggregation of local knowledge, rather than generic best-practice templates, Rodrik's conception of industrial policy is a quintessentially experimental process in which the big challenge is crafting the collaborative process of discovery between state and industry rather than obsessing about the outcomes that cannot be known ex-ante or the policy instruments whose efficacy depends on the spatial context in which they are deployed and the calibre of the institutions that are doing the deploying. These ideas have helped to shape the thinking of theorists and policymakers alike and they played a big role in framing the concept and the policy of smart specialisation as we shall see in section 5.1 below.

While the new industrial policy paradigm is certainly a robust intellectual conception, it tends to gloss over some of the challenges that arise when such policies are deployed in practice. Three challenges that deserve to be treated more seriously are: feedback, failure and learning (Morgan, 2017b).

Although the significance of reliable feedback is widely acknowledged, especially in evolutionary theories of change, we tend to assume that it is readily available. The truth of the matter however is that feedback is filtered and tempered by a whole series of things, like power, status, hierarchy, fear, and ambition. That "whistleblower" laws have been introduced in many countries to help public sector workers find their "voice" clearly speaks volumes for the fact that feedback faces formidable obstacles and on no account should it be assumed to be easily forthcoming.

If feedback is hard to manage, failure is even more difficult to accomodate, especially in the public sector where taxpayers' money is at stake. Failure in the public sector can spell disaster for managers and their political masters. Rodrik is surely right to argue that we need to have a higher tolerance of failure, because it is part and parcel of experimentation and innovation, and therefore the aim should be not to try to outlaw mistakes but to reduce the costs of mistakes by learning from them and by learning to fail faster so to speak. To have a more enlightened understanding of failure in the public sector, policy innovators will need to mobilise a wider constituency so as to include such groups as public auditors, legal advisers and of course politicians, the very people that are responsible for fuelling the risk-averse culture that stymies innovation in the public sector.

Finally, the public sector will need to allocate more space, time and resources to learning about what works where and why if the new industrial policy paradigm is to have practical

traction because monitoring and evaluation are still seen as low status activities. The barriers to organisational learning in the civil service – silo structures, staff turnover, ineffective mechanisms to support the acquisition and dissemination of good practice and the lack of time devoted to learning – are common to the public sector in many countries and these features are manifestly at odds with the "smart state" assumptions of the new industrial policy paradigm.

The entrepreneurial state thesis

The entrepreneurial state thesis developed by Mariana Mazzucato is perhaps the most prominent example of the new industrial policy paradigm. Her book, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, is *"an open call to change the way we talk about the State, its role in the economy, and the images and ideas we use to describe that role"* (Mazzucato, 2013:198). There has never been a more important time to discuss the creative potential of the public sector, she argues, because in most parts of the world we are witnessing *"a massive withdrawal"* of the state on the purely ideological grounds that it is deemed to be a drag on innovation and economic development. To counter this stereotyping of the state, Mazzucato talks up the manifold ways in which the public sector has helped to fashion the knowledge economy. To illustrate the point, she highlights "the state behind the iPhone", arguing that all the technologies that make Apple's iPhone so "smart" – Internet, GPS, touch-screen display, and the SIRI voice activated personal assistant – were actually the products of *public* funding.

This is one among many examples that are used to illustrate the entrepreneurial role that the public sector has played in nurturing and steering the knowledge economy. In the case of the United States, she argues, the state has backed the microchip, the Internet, biotechnology and nanotechnology, all of which were handsomely funded through public agencies, especially through DARPA, the NSF and the National Institutes of Health.

Although this is a compelling antidote to the negative stereotypes of the state that populate neo-liberal narratives of innovation and development, the analysis is marred by two problems: (i) the thesis is heavily predicated on the example of DARPA, a unique public sector mission-led agency and (ii) the thesis elides the public sector barriers to entrepreneurial behaviour.

The public sector agency that seems to embody the traits of the entrepreneurial state to a greater extent than any other in Mazzucato's perspective is the Defence Advanced Research Projects Agency (DARPA), an arm of the US Department of Defence. Created in 1958, following the Sputnik shock, DARPA has been at the heart of product and process innovation in the knowledge economy and it is part of the *"hidden developmental state in the United States"* (Block, 2008). With an annual budget of more than $3 billion, a highly specialised staff of 240 and a risk tolerant mandate to nurture novel technologies, DARPA is a unique agency, in no way typical of the public sector. These unique attributes help to explain why DARPA has been so adept at effective technology brokering, which links scientists and engineers to wider commercial networks, a function that has been aptly described as *"the most central developmental task"* (Block, 2008).

If the creativity of the public sector is overplayed in the entrepreneurial state thesis, the barriers to creativity are underplayed. In a more recent book, *The Value of Everything*, Mazzucato develops the thesis by calling for a more entrepreneurial mindset in the public sector. Public institutions, she argues, *"must get over the self-fulfilling fear of failure, and realise that experimentation and trial and error (and error and error) are part of the learning process"* (Mazzucato, 2018:266). All the criticisms levelled above – regarding the

elisions in the new industrial policy paradigm – are equally applicable to the entrepreneurial state thesis because it also fails to sufficiently address the problems of failure, feedback and learning in the public sector.

Although Mazzucato tends to be blasé about the "fear of failure" in the public sector, the problem of dealing with the politics of failure is a genuinely fearsome problem – and the demise of Solyndra is a perfect example. A solar power start-up with a radical new technology, Solyndra quickly went from being the toast of Silicon Valley following its founding in 2005 to being bankrupt in 2011, partly because solar prices plunged 60% in three years and partly because it was unable to compete on costs with rivals in China, where the government had poured an estimated £30 billion into its solar manufacturers in 2010. While the Obama administration was shown to have been above board in its dealings with the company, *"Solyndra has become Republican shorthand for ineptitude, cronyism, and the failure of green industrial policy"* (Grunwald, 2012: 272).

But the real lesson of the Solyndra experiment would seem to lie elsewhere because: *"The lesson, however, is not that the administration should not have subsidized a company that eventually failed. There is no economic reason that the government should recover every loan. In view of the environmental and technological externalities, there is not even a case for insisting that the loan portfolio as a whole should make a profit or break even. The real lesson is that there were no safeguards in place against political manipulation and to ensure DOE could pull the plug if circumstances warranted it. Worse yet, the administration made it harder to reverse course by committing itself to the project politically"* (Rodrik, 2014: 482).

To reduce the costs of this kind of failure – the financial costs as well as the political costs - governments need (i) to allocate more time and attention to conducting ex-ante due diligence assessments and (ii) to be more open and transparent regarding the economics of the portfolio approach to investment, where failure is a symptom of normality rather than a sign of irregularity or criminality. This underlines the importance of having high calibre skill sets in the public sector, another issue that tends to be elided in the entrepreneurial state thesis.

Public sector innovation labs

The rise of the public sector innovation (PSI) lab is perhaps the most tangible sign that governments at all levels of the multilevel polity are genuinely trying to grapple with the challenges of novelty. The UK innovation foundation, NESTA, is one of the most prominent pioneers of public and social labs as a means of addressing societal challenges through evidence-based local experiments. Geoff Mulgan, NESTA's chief executive, has documented the growth of the lab movement and argues that labs need to be both insiders and outsiders at the same time, which means they face the classic 'radical's dilemma'. "If they stand too much inside the system", he argues, *"they risk losing their radical edge; if they stand too far outside they risk having little impact. It follows that the most crucial skill they need to learn is how to navigate the inherently unstable role of being both insiders and outsiders; campaigners and deliverers; visionaries and pragmatists". Although there is no concise definition of a public or social lab, he suggests it might include "experimentation in a safe space at one remove from everyday reality, with the goal of generating useful ideas that address social needs and demonstrating their effectiveness"* (Mulgan, 2014: 2).

Public sector labs need to be given much more prominence because, while they are in the forefront of public sector innovation, their mandates depend on political discretion and this helps to explain why they tend to have short lifespans. Even so, the growing emphasis on

public sector innovation in OECD countries will ensure that such labs become more rather than less important in the future (Daglio et al., 2015).

Two large scale surveys have shed new light on the spread of labs. First, a study of 20 labs by Nesta and Bloomberg Philanthropies drew some useful analytical distinctions by identifying four categories of lab: developers and creators of innovation (those who address specific challenges); enablers (those who introduce insights from outside the public sector); educators (those who seek to transform processes and organisational culture); and architects (those who focus on system and policy level change) (Puttick et al. 2014). Whatever their remit, these labs are invariably created to deal with the growing complexity of policymaking in an era of accelerating social and technological change and they are distinguished by their commitment to working in a manner that is user-focused, cross-sectoral and data-driven, a stark contrast to the silos and hierarchies of the conventional public sector.

In a second survey of 35 labs around a third had been established at the municipal level, suggesting that cities and municipalities are just as likely to launch PSI labs as national governments. For over 60% of the teams the primary source of income was self-generated, that is project-based funding, closely followed by direct budgetary transfers from the sponsoring government department. Another significant feature concerned the skill mix of the labs. The PSI labs brought together heterogeneous teams of researchers, designers, and stakeholders to discover and analyse problems from different angles and they employed people from backgrounds generally new to the public sector – in such varied fields as design, anthropology, ethnography, social geography, as well as political science, sociology, and communication etc. But the conclusions of the survey painted a mixed picture of PSI labs in two respects.

Firstly, although prominent in many modern public management strategies, PSI labs were found to be far from an organic part of public sector: *"The main source of autonomy as well as survival is high level political and/or administrative support, meaning that once an i-lab loses its sponsors, the survival chances diminish radically. This has created an interesting paradox– smaller i-labs are easier to close down, whereas larger i-labs face the risk of losing flexibility and freedom to act. One of the consequences of this paradox has been rather short life-spans of experimental i-labs".* Secondly, one of the tasks of such semi-autonomous spaces is to catalyse change in the public sector, like a skunk works in the private sector. But the precarious lifecycle of labs and the lack of support for mainstreaming new solutions serves to *"limit the potential of i-labs to act as change-agents"* (Tonurist et al., 2015).

Even so, these problems have not stymied the growth of PSI labs, especially in Europe, where there were more than 60 labs in operation in 2016. Most of these labs were not specialized or geared towards a specific type of policy; rather they were applying a user-focused, experiment-oriented approach to policy design as a means of driving innovation across a wide spectrum of policy domains. However, many of these European labs were also found to be extremely fragile, with the two biggest threats to their existence being *"budget cuts and changes in elected officials"* (Fuller and Lochard, 2016: 17).

Two of the biggest questions now being asked about PSI labs are: (i) how can they become more effective catalysts for systemic change in the mainstream life of the public sector and (ii) does their rapid growth mean that public policy is becoming more data-driven and evidence-based?

To date the catalytic role of PSI labs has been constrained by two main factors: by their short lifespans and by the fact that they operate at one remove from everyday reality. Some lab leaders now believe that the best way to solve the longevity problem is by working more

closely with frontline public services, sacrificing the autonomy they have enjoyed in the past for greater relevance (and hopefully longevity) in the future. The Swedish innovation agency, Vinnova, is one of the public bodies that has led the way in searching for a more realistic lab format, with its *Reality Labs* concept. Since 2011 Vinnova has been experimenting with a number of concepts to support public service innovation, starting with the concept of *Innovation Sluices* (organisational structures to support ideas from public servants and help turn them into reality) and then it developed that concept into *Testbeds* (which helped outside organisations work together with the public sector and test new ideas).

According to Tobias Ohman, Vinnova's programme manager, the Reality Labs concept signals a radically new phase of trying to integrate labs with frontline service provision, hence the name:

> *"What we want to achieve now with the Reality Labs is to fund innovation structures in the public sector to build 'labs' at the very point of value creation: that is, for instance, at the clinic or in the classroom where healthcare or education is delivered. By pushing the public sector to open these structures for experimentation, we believe we will get more tests running in the real world and solutions that are immediately relevant to the real world and real users. The difference with Reality Labs and other innovation labs is the proximity to the frontline, and that we require the reality labs to be focused on a technology or need-based area, for example the transitions between healthcare and elderly care, or AI and diagnostics at the point of care (for example, digital solutions for university students with special needs). Through this, we hope to create clusters of interest and expertise. Like the 'old' testbeds, these labs should be able to interact with external stakeholders. Unlike the testbeds, however, the public sector will have the initiative by proactively searching for appropriate solutions instead of testing every imagined solution that is 'knocking on the door' of the testbed" (Quaggiotto, 2017).*

Vinnova has already funded 15 Reality Labs through an open call. Although it is not overly prescriptive as to what a PSI lab is required to do, it has identified seven principles which it believes are essential to the success of a lab, namely:

1. That the lab is really performing experiments in the organisation's core business, at the front end.
2. That they can express a special focus of interest that is specific but at the same time with broader applicability (beyond the local context).
3. That they know the market of their focus of interest, and that they have an ambition to communicate their results.
4. That the experimentation process is open to other stakeholders, that there is a possibility to participate and that there is an agile mindset, with experiments performed iteratively and with possibilities to quickly initiate and terminate co-operations with external entities.
5. That the applicant is building an organisation for testing and experimentation with high potential to survive after the funded project is over. That is, a business model of some sort.
6. That they have an integrated policy strategy from the start; they should understand what policies apply in their area of focus and how to change/influence them.

7. That they should (in most cases) have a clear view of how to utilise digital services (Quaggiotto, 2017).

Vinnova's experience will be monitored and mimicked very quickly because one of the merits of the international lab movement is its generous ethos of mutual support and learning-by-interacting thanks to such forums as the Innovation Growth Lab (which is led by NESTA and which aims to make innovation and growth policy more experimental and evidence-based) and associations such as the European Network of Living Labs and the Global Living Labs organisation.

Turning to the second question posed earlier: does the growth of PSI labs mean that public policy is becoming more data-driven and evidence-based? The short answer is not necessarily because this will depend on the relevance of the lab and its capacity to generate real world solutions that can be sufficiently scaled up to make a difference to frontline service providers. In addition to these supply-side factors, it will also depend on the character and quality of the *demand-side* of the policymaking process – on the absorptive capacity of politicians and their commitment to evidence-based policy. The positivist presumption that better evidence will lead to more effective policies has been rightly dismissed by critics as a naively rationalist, 'technocratic wish in a political world' that presumes an all too linear relationship between evidence and policymaking and an untenable distinction between (policy) facts and (political) values (Mcgann et al., 2018).

If the future of PSI labs seems assured – not least because the public sector will be compelled to experiment and innovate to meet ever more complex societal challenges – the key debate will revolve around what constitutes "success". On the question of metrics it would seem that *"the most obvious – if imperfect – short-term metric of success is being seen to be useful by key holders of power and resources"* (Mulgan, 2014: 8).

5. Subnational worlds of experimentalism

National level initiatives may command most media attention when it comes to innovations in governance, but it is the subnational level of cities, regions and localities where new forms of experimentalist governance have been pioneered. Section 5 explores this subnational world of experimentalism by focusing on a number of different territorial models, namely: the well-established paradigm of regional innovation systems; the manifold forms of city-regionalism; the advent of the new localism; and the very recent example of the foundational economy, perhaps the most radical and challenging form of place-based experimentalism considered here.

The literature on *subnational* governance and development has flourished to such an extent in recent years that it is not easy to classify it in distinct categories because there are so many spillovers and overlaps. Purely for the sake of convenience this section will synthesise this vast literature under four theoretical perspectives: (i) regional innovation systems; (ii) city-regionalism; (iii) new localism; and (iv) the foundational economy.

Each of these theoretical perspectives offers its own interpretation of experimental governance and territorial development.

Regional innovation systems: the S3 challenge

The *regional innovation systems* (RIS) perspective has dominated the debate on regional development over the past two decades and it has been enormously influential in shaping the cognitive framings of territorial development in theory, policy and practice. At the heart of the RIS perspective is the claim that the most innovative regions are those in which the key institutions – firms, their supply chains, governments, universities and the like – are able and willing to work in concert to find joint solutions to common problems. In this respect the RIS perspective has affinities with other territorial innovation models, such as industrial districts, innovative milieu, technology clusters and learning regions (Asheim, 1996; Asheim and Gertler, 2005; Morgan, 1997; Moulaert and Sekia, 2003). Notwithstanding its influence in the academic and policy-making worlds, however, the original RIS perspective has been criticised for being too static, too bounded in its conception of space and too insensitive to the problems of lagging regions where the institutional milieu is less conducive to the collaborative forms of innovation that characterise more dynamic regions (Uyarra, 2010; Marques and Morgan, 2018). These criticisms have surfaced again in the current debate about smart specialisation, the latest form of regional innovation policy in the EU, which will be used to illustrate the key arguments.

The origin of the RIS concept lies in the convergence of two hitherto separate bodies of theory. The first was *regional science*, with its interest in explaining the locational distribution of high-tech industry, technology parks and, above all, the uneven spatial character of innovation and development. The second was the *national systems of innovation* literature, which demonstrated that innovation processes were interactive rather than linear and mediated by nationally-based institutions that gave innovation a systemic and national character (Cooke, 1998). Although there are many variants of RIS, ranging from state-led dirigiste models to market-driven localist models, the common denominator is a strong focus on actors, networks and institutions. A recent state-of-the-art review of the RIS literature conveys the point very well:

> *"Conceptualisations of RISs vary but most protagonists agree that these systems—like other innovation system variants—are made up of three core elements, that is, actors, networks and institutions. Key actors of RIS are the firms and industries located in the region as well as organisations that belong to the knowledge and support infrastructure such as research institutes, educational bodies and knowledge transfer agencies. Networks that facilitate knowledge flows and interactive learning between these actors are seen as eminently important for dynamic innovation activities to unfold. The 'functioning' of RIS is seen as being influenced by an institutional framework of formal rules and informal norms. A central argument in the RIS approach is that innovation does not take place in isolation, it includes interactive learning in localized innovation networks that are embedded in specific socio-cultural settings. But one should also underline that RISs*

> *are open systems in which organisations source knowledge through extra-regional production and innovation networks" (Isaksen et al., 2018: 2).*

One of the great merits of the RIS approach is that it demonstrates in theory and practice that innovation is a *place-dependent* as well as a path-dependent process and that policy responses need to be attuned to the granular conditions in each specific region rather than derived from a "best practice" policy template. Regional innovation policy design will depend on the type of region in question and a highly influential regional typology has been developed that distinguishes between the organisational thinness of peripheral regions, the lock-in problems of old industrial regions, and the internal system fragmentation of highly diversified metropolitan regions. To address the diversity of these place-based challenges, the most important policy priority is to abandon a "one-size-fits-all" mindset and embrace a more granular approach that respects the specificity of places (Todtling and Trippl, 2005; Coenen et al, 2016).

In response to criticisms that the RIS approach was too static, scholars have begun to investigate how a RIS can influence the nature and direction of regional economic change by fashioning new growth paths. This work connects the RIS approach with evolutionary theories on path dependence to examine how RISs promote or hinder economic diversification, but it does so in a manner that combines multi-scalar analysis, thereby avoiding the overly micro-focused analyses of evolutionary economic geographers. Leading advocates of the RIS approach suggest that *"different types of RIS show varying capacities to nurture new path development. This is attributed to differences in the degree of 'thickness' and diversity of the organisational structures of RIS. These features are seen to shape the capacity of RIS to grow new paths by means of endogenous assets and to influence their potential to develop new paths by attracting, absorbing and anchoring non-local knowledge and resources*" (Isaksen et al., 2018: 5).

Many of the basic ideas of the RIS approach – like the place-dependent nature of innovation, the role of institutional thickness, the importance of inter-organisational networks for generating and exploiting knowledge and the integrity of governance mechanisms etc – informed smart specialisation, the concept that was rapidly propelled from the margins of the academy to the mainstream of regional policy in the EU.

As a policy concept, smart specialisation was designed with a dual purpose in mind: (i) to expedite agglomeration processes by reducing duplicative regional investments in science and technology and (ii) to encourage regional players, especially regional governments, to *"particularise themselves by generating and stimulating the growth of new exploration and research activities, which are related to existing productive structures and show the potential to transform those structures. This is the rationale for smart specialisation"* (Foray, 2015: 11). The main architect of the smart specialisation concept, Dominique Foray, drew on the experimentalist governance ideas of Sabel and Rodrik to develop the idea of the entrepreneurial discovery process, the core of the smart specialisation conception. According to Foray, *"the discovery and collective-experimentation process forms an integral part of political action and must be carried out within the framework of strategic interactions between the government and the private sector. This is the essence of entrepreneurial discovery"* (Foray, 2015: 5).

Forging collaborative arrangements between governments, firms and universities in a "framework of strategic interactions" is proving to be one of the most difficult challenges in the implementation phase of smart specialisation in the EU, especially in the context of lagging regions where there has been little or no tradition of such collaboration (Marques and Morgan, 2018; Blazek and Morgan, 2018). To be fair, Foray was alive to this problem,

saying: *"The most peripheral and less advanced regions will be in difficulty when it comes to developing a smart specialisation strategy. The lack of entrepreneurial capacities and the weakness of administrative capacities will combine to make this process uncertain and almost impossible"* (Foray, 2015: 66). These weaknesses are especially apparent with respect to monitoring and evaluation (M&E) activity. One of the enduring problems of regional innovation policy throughout its history, a problem that persists today, is the low political commitment to M&E mechanisms. As regards monitoring, the 2017 Fraunhofer survey found that the situation had not improved from the previous year: while two-thirds of respondents claimed that their region had some monitoring concept, only half of those had the capacity to track RIS3 priorities in an informed way (Kroll, 2017:12).

Because regional practitioners tend to see M&E in terms of an externally imposed audit function – a command and control tool to police compliance – they miss the real significance of M&E activity: that it is primarily a learning tool and not a compliance tool. This was the key point that Charles Sabel made at the *Smart Regions Conference* in Brussels in 2016, when he argued that RIS3 needed more *diagnostic monitoring***,** which involves *"monitoring to underscore the continuing need at all levels to check on progress, given the limits of planning, and diagnostic because the aim is to facilitate and organize problem solving by the actors, not to use the threat of punishment for bad performance as an incentive for good behaviour"* (Sabel, 2016). In the absence of diagnostic monitoring, he warned, *"RIS3 could become a new name for business as usual"* (Sabel, 2016).

In the light of practical experience, what is becoming clear is that smart specialisation was largely predicated on the formal and informal institutional milieu of northern Europe, countries that had the capacity to design and deliver place-based innovation policies. This northern-centric presumption has triggered a sympathetic critique of smart specialisation policy:

> *"sympathetic because of its ambition and the fact that it recognises innovation for what it really is, namely a collective social endeavour; and a critique because it makes some unwarranted assumptions – heroic assumptions – about the institutional capacity of lagging regions to design and deliver such a sophisticated regional innovation policy...We suggest that these unwarranted policy assumptions have arisen in part because of two problematical trends: (i) the uncritical embrace of empirically challenged conceptual models and (ii) the intellectual bias that extols policy design over policy delivery, with the result that the prosaic world of implementation is either neglected or ignored" (Marques and Morgan, 2018: 289).*

Lagging regions pose the stiffest test for the place-based approach to innovation and development. Although cohesion policy in the EU is a multi-scalar responsibility, in which supra-national, national and subnational authorities need to work in concert to calibrate their efforts, no amount of external support can compensate for the quality of institutions at the regional level. Institutional weakness – in terms of both governance and capacity – is one of the defining features of lagging regions, whether the latter are low growth regions or low income regions. Institutional quality in low growth regions is estimated to be just 63% of the EU average, while in low income regions it is just 57%. But it also varies significantly, from just 12% of the EU average in Campania (Italy) to 26% above the EU average in Alentejo (Portugal). The absence of quality institutions stymies economic growth, compromises the provision of public services and denudes the region or the country of talent. For example, a survey of young migrants from Greece found that the main reason given for moving abroad was "the lack of meritocracy and corruption in society", cited by 40% of respondents, even more than those who cited the economic crisis as the main reason for migrating abroad (World Bank, 2018: 108).

These institutional deficits are often most pronounced at the subnational level, especially in Italy, Spain, Belgium, Romania and Bulgaria, where lagging regions are believed to be 'stuck in a low-administrative quality, low growth trap' (EC, 2014: 168; Morgan, 2017a). A similar conclusion emerged from a highly influential analysis of quality of government and innovative performance, which found that high levels of corruption and low levels of policy-making capacity were the most important governmental qualities that constrained the efficacy of innovation policies – so much so that institutional reforms to reduce rent-seeking and combat corruption need to be considered as *"de facto innovation policies for the regions in the periphery of Europe"* (Rodriguez-Pose and Di Cataldo, 2014: 22). The future of cohesion policy in and beyond the EU will increasingly revolve around efforts to enhance the quality of institutions by rendering governance more accountable, more effective and more experimental.

City-regionalism: reconnecting cities and regions

Burgeoning urbanisation has sparked two different but complementary debates about the role of cities in innovation and territorial development – namely city-regionalism and new localism. City-regionalism is understood here to mean the manifold ways in which city governments are trying to re-connect with their regional hinterlands to form metropolitan governance structures. The quest for new forms of metropolitan governance can be framed narrowly or broadly. In the narrow sense, city-regionalism is driven by a purely economic desire to capitalise on the perceived benefits of agglomeration, and this is the dominant sense in which the term is used in most OECD countries today. In the broader sense, however, city-regionalism is fuelled by a desire to create more strategic spaces to design and deliver policies for sustainable development, and this is the ecological sense of the term. These two rationales – the economic and the ecological – are not mutually exclusive, not least because the city-regional process can be triggered by a narrow economic framing before evolving into a more capacious ecological framing as the costs and the limits of the former become more apparent (Morgan, 2014).

Whether the rationale for city-regionalism is economic or ecological, the political challenge remains the same – to fashion a metropolitan governance structure that affords greater institutional coherence to municipalities in the metro area – municipal bodies that may be rivals as well as neighbours. Overcoming administrative fragmentation in metro areas can deliver important benefits in terms of higher growth and more effective provision of public services, one reason why the number of metropolitan governance bodies has increased markedly since the 1990s. Indeed, more than two-thirds of OECD metro areas now have a metropolitan governance body and, of these, around 80% work on regional development, over 70% on transport and over 60% on spatial planning (OECD, 2015). Securing institutional coherence is an enormously challenging task because of the growing complexity of multilevel polities and jurisdictional turf fights, as the following examples demonstrate.

The multilevel polity in China poses particularly difficult challenges for city-regionalism because of its institutional complexity and jurisdictional rivalry. Li and Wu's (2017) research on city-region development in China's Yangtze River Delta (YRD) provides a clear example of how *relations between regional and national governments* shape prospects for within-region cooperation and coordination. The YRD, like other Chinese regions, continues to feel the impact of the strongly hierarchical administrative system developed by the socialist regime, coupled with administrative decentralisation to local government (which itself consists of four levels). These administrative borders have proved particularly resistant to boundary-spanning initiatives, not least because it is at the local level that

political reputations and career prospects are forged. As a consequence, bottom-up initiatives aimed at addressing regional needs find themselves in competition with the priorities of each constituent jurisdiction.

As we saw earlier in section 3.1, while bottom-up collaboration is a challenge for city-regionalism in China, so too is top-down collaboration. In the YRD region, we might recall, the centrally-commissioned YRD Regional Plan provides for neither the structures nor the funding that would allow it to be implemented and local authorities continue to lack the powers to enact cross-boundary initiatives. This clearly limits the scope for new forms of experimentation at the city-regional level.

In other cases the public sector is playing a pro-active role in fostering city-regionalism. For example, in their assessment of urban living labs across Europe (Kronsell and Mukhtar-Landgren, 2018) identify three distinct *roles for the public sector in experimental activities*. As part of formal efforts to develop the Newcastle and Gateshead City Region, in the UK's North-East region, Newcastle City Council has taken on the role of *promoter*. In return for City Deal funding, granted through an agreement with national government, the City Council has signed up to a series of commitments that have seen it take a renewed leadership role in the region – a role in which it *"[uses] its authority and capacity to govern the [regional] collaboration"* (p.996).

But it has also recognised the value of working alongside other, non-state actors, and so has fostered a model in which it serves as a joint lead *partner* in many activities. Thus, in the development of Newcastle Science Central, a mixed-use development in the heart of the city that aspires to be a regional innovation hub, the City Council is working jointly with Newcastle University (www.newcastlesciencecentral.com).

As relationships have grown, so this model has evolved, spawning Newcastle City Futures, a university-led partnership involving all of the region's local governments and universities, together with other business, community and local government representatives (www.newcastlecityfutures.org). The process of identifying and developing projects, all of which involve a local take on global challenges, has been an inherently collaborative affair. And while the City Council is a partner in the City Futures initiative, it need not be directly involved in all of the experimental projects beneath its umbrella. Thus it also serves a third role, that of facilitator, or *enabler*.

The complex *challenges of joint working* across a city-region have been comprehensively addressed in Bradford & Bramwell's (2014) volume on Canada, *Governing Urban Economies*. The authors identify three distinct forms of urban governance: *institutionalised collaboratives,* in which a clearly defined set of institutions defines goals, convenes actors and coordinates action; *sector networks*, which lack a coordinating infrastructure and thus see economic and social actors operating in independent networks; and *project partnerships,* in which collaboration occurs around time-limited projects, and participant organisations anticipate direct benefits.

Nelles' analysis of the Kitchener-Waterloo region (identified as an institutionalised collaborative case) highlights the importance of broad-based *civic engagement* to the sustainability of economic development initiatives; but it also raises the question of how groups representing civil society – many of which operate on a hyper-local basis, attending to disparate interests or needs – can achieve the same voice in the decision-making process as associations with a purely economic focus. Where economic development associations have *"transcended their originally narrow economic mandates"*, as has happened in Kitchener-Waterloo, a more inclusive and coordinated form of regional governance has been possible. Nevertheless, given the membership of such associations, the risk remains

that infrastructure development, while broadened to encompass education, the arts and culture, will predominantly serve the needs of the regional elites (Nelles, 2014).

Meanwhile, in an example of a sector network region, Andrew and Doloreux identify the failure to connect the economic and social sectors in Ottawa as a contributing factor in *"the general sense of dissatisfaction with the overall community and civic leadership"* (Andrew and Doloreux, 2014:156). This highlights the challenge of uniting economic and social development goal because, as the authors note, the question of whether such objectives are compatible cannot simply be "normatively assumed". Nevertheless, there are signs that coordination between them might usefully be improved. Notably, despite economic development goals in the Ottawa region containing "social dimensions", action group membership has previously been limited to economic development interests, with *"no explicit effort to bring in social partners"* (Andrew and Doloreux, 2014: 148). But as the Kitchener-Waterloo case illustrates, these limitations can be addressed in such a way as to render the process of regional development more socially inclusive. Although city-regionalism tends to be a narrowly conceived economic process, in which local elites dominate the agenda, there is no inherent reason why the process cannot evolve into a more capacious agenda that embraces social and ecological concerns.

New localism: cities as innovation spaces

If city-regionalism focuses on the inter-municipal level of governance in the metropolitan region, new localism directs our attention to the interplay of city governments and their partners in the public, private and civic sectors. Although the concept of new localism has surfaced on occasions in the past (Morgan, 2007), it has been given a new prominence through the work of Bruce Katz at the Brookings Institution (Katz, 2017; Katz and Nowak, 2017). The central thesis is as bold as it is contentious because it claims that political power is undergoing a radical shift in the multilevel polity: *"Power is drifting downward from the nation-state to cities and metropolitan communities, horizontally from government to networks of public, private and civic actors, and globally along transnational circuits of capital, trade, and innovation […]. In sum, power increasingly belongs to the problem solvers. And these problem solvers now congregate disproportionately at the local level, in cities and metropolitan areas across the globe. New Localism embodies this new reality of power"* (Katz and Nowak, 2017: 1-2).

It is no coincidence that this version of new localism was conceived and developed in the US, where the federal level is mired in such ideological gridlock that it is virtually impossible to secure bi-partisan support for the greatest issues of the day – issues like climate change, affordable healthcare, immigration and the regulation of campaign finance for example. So although the thesis allegedly applies to all countries, it is overwhelmingly addressed to an American audience because new localism is said to have emerged in its most dramatic form in the US as a result of *"the exceptional level of partisanship and the consequent withdrawal of the federal and state governments as reliable partners"* (Katz and Nowak, 2017: 12).

The new localism thesis has been warmly embraced by prominent urbanists like Richard Florida, who has taken the argument much further by issuing *"a declaration of urban independence"*, calling for US cities to be liberated so that they can govern themselves, which is tantamount to an extreme form of hyper-localism: *"Local communities and their residents have ceded power to corporations and the national government for far too long, and both have consistently failed to meet cities' needs. It is time for cities to take back*

control and enable themselves to tackle their own opportunities and challenges from the ground up" (Florida, 2018).

Strong localist sentiments are understandable when the federal level is so chronically dysfunctional, as it manifestly is in the US today, but critics claim that hyper-localism is a problematical thesis on two counts: firstly, because it (wrongly) suggests that cities can solve their own problems and, secondly, because it (inadvertently) weakens efforts to reform the national state by refocusing attention on the subnational level. As one critic argues:

> *"Katz and Nowak marshal an impressive list of inspiring local innovations from cities, such as Indianapolis, Chattanooga, Oklahoma City, and St. Louis. Mayors and civic leaders in these places are generally pragmatic and entrepreneurial and are developing solutions that cut across partisan and ideological lines. Cities are, as the saying goes, the laboratories of democracy. But for the most part, they are the small-scale, bench-test laboratories for incubating ideas and showing that they can work at a municipal scale. Implementing these ideas at a national scale is essential to their success. The key lesson of policy experimentation is that while ideas can be tested and refined at the state or local level, they ultimately need to be national in scope. States experimented with minimum wage laws, unemployment insurance, and old age pensions, but none of these began to address our problems until extended nationwide in the New Deal" (Cortright, 2018).*

This criticism is aimed not so much at new localism per se, but at the hyper-localist demand for a unilateral declaration of urban independence which downplays the multiple inter-dependencies between the national and local levels. As Cortright rightly argues, many of the innovative city strategies celebrated by Katz and Nowak are directly dependent on the ability to tap federal funds. In the case of Pittsburgh, which is heralded as an exemplar of local innovation, the reality is that Carnegie Mellon and the University of Pittsburgh receive more than $1 billion in federal research funding annually: *"Cities looking to exploit an "eds and meds" strategy can't do it without huge federal support in the form of research grants, student aid, Medicare, Medicaid, and the Affordable Care Act. A federal government that defunds these programs – as seems likely because of the new tax law – will make it all but impossible for cities to innovate"* (Cortright, 2018).

The new localism rightly draws our attention to the potential for local experimentation at the urban level, especially where mayors and city governments have the wherewithal to craft new alliances with their stakeholders in the public, private and civil sectors. But tapping the full potential of cities requires not unilateral action within the city, but concerted action between the city and other governmental levels in the multilevel polity. Unfortunately, such inter-governmental collaboration is receding by the day in the toxic atmosphere of US politics, where the Trump administration has published plans to weaken regulations for vehicle fuel efficiency and carbon dioxide emissions, along with a proposal to strip California of its rights (under the 1970 Clean Air Act) to set its own vehicle emissions standards, a move that could trigger a new era of inter-jurisdictional conflict within the American multilevel polity (Crooks, 2018).

Foundational economy: back to basics

Finally, the *foundational economy* constitutes the most radical new concept in the place-based policy literature because it focuses not on the fashionable sectors of the knowledge economy, but the unfashionable sectors that are designed to keep us "safe, sound and civilised" – namely health, education, dignified eldercare, agrifood, energy and the like. The foundational economy includes the goods and services, which are the social and material

infrastructure of civilized life because they provide the daily essentials for all households. These include *material services* through pipes and cables, networks and branches distributing water, electricity, gas, telecoms, banking services and food; and the *providential services* of primary and secondary education, health and care for children and adults as well as income maintenance. Foundational goods and services are purchased out of household income or provided free at point of use out of tax revenues. The state often figures as direct provider or as funder; with public limited companies and outsourcing conglomerates increasingly delivering foundational services. The requirement for local distribution makes foundational activity immobile and much is protected from competition by the need for infrastructure investment, planning permission or government contracts. Foundational thinking rests on two key ideas which break with established ways of thinking and challenge taken for granted assumptions about economy, society and politics:

- **the well-being of citizens depends less on individual consumption and more on their social consumption of essential goods and services** – from water and retail banking to schools and care homes. Individual consumption depends on market income, while foundational consumption depends on social infrastructure and delivery systems of networks and branches which are neither created nor renewed automatically, even as incomes increase;
- **the distinctive, primary role of public policy should therefore be to secure the supply of basic services for all citizens, not a quantum of economic growth and jobs**. If the aim is citizen well-being and flourishing, then politics at national and subnational levels needs to be refocused on foundational consumption and securing universal minimum access and quality. When government is unresponsive, the impetus for change will have to come from engaging citizens locally and regionally in actions which have the virtue that they break with the top down politics of *"vote for us and we will do this for you"* (FEC, 2018).

The foundational economy (FE) perspective is part of a new wave of place-based conceptions that are primarily concerned to address and promote the intrinsically significant basic needs of people, especially the people who have been "left behind" by the forces of globalisation and technological change. For example, the FE perspective resonates strongly with the *Inner Areas Strategy* developed by Fabrizio Barca and colleagues in Italy, which focuses directly on people's access to essential services, particularly health, education, and mobility (Barca, 2018). It also resonates with the Constitutional Political Economy approach in the US, which treats housing as a gateway to an array of essential services that are deemed to be vital to human flourishing. Among the policy experiments proposed in the CPE approach is more experimentation with "mandatory inclusionary zoning" at the local level to address the deep drivers of housing inequality and economic segregation (Rahman, 2018). The FE perspective is also closely aligned with the concept of universal basic service provision being developed by the UCL Institute of Global Prosperity, which sets out the concept in the following way:

> *"Our research...demonstrates unequivocally that money spent on basic services – the most fundamental building blocks for life required by every citizen in the 21st century – dramatically reduces the cost of basic living for those on the lowest incomes. Basic services will reduce poverty because they will reduce the cost of a minimum living standard. Even if income levels remain static, it will make accessible a life that includes participation, builds belonging and common purpose and potentially strengthens the cohesion of society as a whole. Focusing on basic services, such as housing, food, communications and transport, is, we conclude, far more effective at driving down the cost of living than spending the same money on*

> *existing services, or on redistribution. In the UK, basic healthcare and education are already free for all, and while further investment in those services is desirable, it will not affect the cost of living for those at the bottom of our society. What we set out here is the blueprint for an enhanced but affordable social safety net. Following the Second World War, the British people through their elected government took a collective decision to institute the NHS – basing healthcare access on need rather than the ability to pay. In the 21st century, we have an opportunity to extend this principle and 'raise the floor' of what all citizens can expect. By so doing, we can create a solid platform for improving the quality of people's lives and the prosperity of future generations" (IGP, 2017: 6).*

Whatever their differences, the common denominator in these new place-based perspectives is an overriding concern for the intrinsically significant services that meet basic human needs and nourish human capabilities, services that are delivered as part of *collective consumption* rather than individuated through market income. However, like other needs-driven models, the FE perspective is politically challenging on three counts: (i) it is constrained by the fact that Treasuries are averse to raising tax income to provide revenue support for public services like education, health and social care; (ii) it pre-supposes that governments are prepared to engage in radical re-regulation to raise the social ask on the private firms and public agencies that deliver foundational services; and (iii) it is predicated on the concept of active citizenship inasmuch as citizens are deemed to be willing and able to become co-producers of the essential services that they collectively consume. The latter appears to be one of the weaknesses of the *Inner Areas Strategy* in Italy because, while public participation has been higher than any previous government-led local development process, *"the strategy has often failed to adequately empower and involve local citizens lacking the power and confidence to speak up in public debate and/or being de facto ostracized by the local elites"* (Barca, 2018: 35). The challenge of active citizenship, or popular participation, in the place-based development process is addressed more fully in the following section because it returns us to one of the key issues that exercised the likes of John Dewey, namely the asymmetry between citizens and experts.

6. Deliberative capacity and the democratic polity

The rise of populism and nativism in many OECD countries has underlined the need for more democratic forms of governance and more inclusive forms of place-based development. Section 6 explores these issues through the prism of two important theoretical debates. The first is the postfunctionalist theory of multilevel governance, which maintains that governance arrangements at the subnational level need to be understood as the interplay of functional logic and social identity rather than via functionalism alone. The second concerns the deepening democracy approach, which aims to deepen the ways in which ordinary people can effectively participate in and influence policies that directly affect their lives, an approach that directly confronts the age-old dilemma of how citizens can relate to experts on equal terms.

Although they might have a democratising effect on the political status quo, experimentalist governance processes are *"not intrinsically democratic in themselves"* (Sabel and Zeitlin, 2012: 175). This is an important admission from the original advocates of experimental governance because, whatever its other merits, EG has attracted criticisms about lack of accountability and transparency on the one hand and for under-estimating the abiding significance of hierarchy on the other (Eckert and Borzel, 2012; Borzel, 2012; Fossum, 2012). These criticisms resonate with the 'local trap', namely the (false) idea *"that local scale decision-making is inherently more likely to yield outcomes that are socially just or ecologically sustainable than decision-making at other scales"* (Purcell and Brown 2005, 280). As Barbera et al. (2018) recently argued with respect to the local commons, citizenship and foundational economy, the concept of local scale should not be regarded as something with fixed properties, but rather as a group of strategies that are pursued by and for distinctive social groups and agendas. Accordingly, there is no reason to believe that local experimental governance per se will necessarily empower democracy and inclusion (see also Acemoglu and Robinson 2013).

The issues of accountability, transparency and hierarchy for place-based policy need to be given more prominence because the democratic credentials of EG should be empirically established rather than theoretically presumed. To this end it is worth considering two perspectives that raise these issues in different ways: the *postfunctionalist theory* of multilevel governance highlights the deliberative challenge for subnational polities; and the *deepening democracy* thesis highlights the challenge of empowerment in the context of asymmetrical power relations.

The subnational policy: a postfunctionalist perspective

One of the key arguments of the postfunctionalist theory is that governance involves at least two things: (i) multi-level governance arrangements serve a functional role in the efficient provision of public goods and (ii) governance arrangements also hold an intrinsic value as an expression of a community's desire for self-rule (Hooghe and Marks, 2016: 1). The importance of this dual understanding is twofold. Firstly, it emphasises how governance arrangements may vary not only because of differing *policy preferences*, but also because of *polity preferences*. In the latter case, variations in governance arrangements arise from self-rule preferences that reflect a region's relationship to the central state and neighbouring regions. Secondly, Hooghe and Marks identify how this can create a complex interplay of governance arrangements within a jurisdiction that can be neither explained nor resolved with reference to functional efficiency alone, hence the need to understand the *social* as well as the functional logic of place-based governance arrangements. Although territorial loyalties were perceived as anachronistic by early modernisation theorists, who (wrongly) believed them to be the cultural hallmarks of economic backwardness, Hooghe and Marks have a much better understanding of the resilience of place-based attachments: *"Territorial proximity is by no means necessary for sociality, but it certainly helps. Territorial community is perhaps the strongest form of solidarity there is. National states are the foremost example, but territorial communities within national states can also have a formidable capacity for collective action"* (Hooghe and Marks, 2016:3). This argument has strong echoes of Dewey who went so far as to say: *"The local is the ultimate universal, and as near an absolute as exists"* (Dewey, 1927: 215).

While the postfunctionalist approach to multi-level governance helps us to understand the multiscalar context in which local experimentation occurs, it has been subject to critique (see Eaton et al. 2018 for discussion). Perhaps the most pertinent criticism is its tendency to conflate authority and capacity, two concepts that are critical to the effective planning and

implementation of any form of experimental governance. Hooghe and Marks privilege the notion of *authority*, which signifies the extent to which a regional government has the right to determine legislation, policy, and the collection and distribution of tax revenues. But authority lacks substance if it is not coupled with c*apacity*, which refers to a government's ability to discharge those functions. This distinction is of particular concern in lagging regions, where institutional thickness – the range of and interaction between the diverse organisations that contribute to a region's development – is often lacking. In this instance, authority alone will not be sufficient to allow for the effective implementation of an experimental governance approach.

In her pioneering work on capacity, identity and development, Prerna Singh finds that the effectiveness of a de-centralised approach depends on the extent to which citizens express a form of solidarity based on personal identification with the region in question. Uneven development between countries is more easily explained than uneven development within a country because, nominally at least, the latter shares many of the formal and informal institutions: so how do we explain the stark variations in social welfare between subnational units within the same country? The answer to this puzzle in India, Singh suggests, *"lies in understanding how the shared solidarity that emerges from a collective identification can generate a politics of the common good"* because *"differences in the strength of affective attachment and cohesiveness of community can be a key driver of subnational differences in social policy and welfare. A shared identification fosters a communal spirit and solidaristic ethos and encourages a perception of not just individual but also collective interests"*. Drawing on research comparing levels of social development in five Indian states, Singh rejects *"a doctrinaire commitment to a policy of decentralization"*, instead *suggesting "that decentralization is likely to be more successful if the political administrative unit to which power is being devolved is a focus of citizens' allegiance"* (Singh, 2016).

The importance of this analysis lies in its emphasis on political and citizen capacity as central determinants of place-based development. When viewed as an outcome of such capacity, the striking social development record of the south-western state of Kerala – in comparison with other Indian states – is testament to what this devolved capacity can achieve (Singh, 2015; 2016). Moreover, the parallel with Amartya Sen's (1999) seminal work on capabilities is striking, in that Sen's work shifts the focus of development efforts from narrow economic considerations of maximising income and wealth, or utilitarian concerns with increasing overall satisfaction, to creating conditions that maximise individuals' *capabilities* – that is their freedom to pursue the things they have reason to value. In this reading, capacity is both an important means of achieving desirable development ends as well as being an end in itself.

To accentuate authority without reference to capacity perpetuates the debilitating tendency in territorial development studies to overplay policy design powers and underplay policy delivery capacity. But according to a recent analysis of state capacity, the key determinant of performance is not the design of policies, programmes and projects, but the *capability for implementation*. Many states, it was found, have highly skewed institutional capabilities: the capability to propose policies, programmes and projects but *"not the capability to implement them"* (Andrews et al, 2017: 12). The argument here runs counter to the conventional territorial policy paradigm, which involves identifying and importing "good governance" and "best practice" from elsewhere, and proposes instead an approach which involves "solving problems" locally and not "importing solutions" from afar, because success builds capacity not vice versa.

Deepening democracy: the EDD perspective

Solving problems locally and deepening democracy are inextricably linked in place-based development strategies that seek to empower and engage citizens and one of the most compelling examples is the *Empowered Deliberative Democracy* (EDD) perspective that explored real-world experiments in the redesign of democratic institutions. The projects explored under the EDD umbrella embraced a wide range of local development issues – including neighbourhood governance councils, habitat conservation planning schemes and participatory budgeting that afforded citizens some say over city budgets. Although the details of these projects are very different, *"they all aspire to deepen the ways in which ordinary people can effectively participate in and influence policies that directly affect their lives. From their common features, we call this reform family Empowered Deliberative Democracy (EDD). They have the potential to be radically democratic in their reliance on the participation and capacities of ordinary people, deliberative because they institute reason-based decision making, and empowered since they attempt to tie action to discussion"* (Fung and Wright, 2001: 7).

One of the great merits of this perspective, from a policy and practice standpoint, is that it transfers the deliberative democracy debate from the realm of abstract principles (where it concerns procedural and substantive debates about values, reason and justice, etc) to the empirical realm of organizations, practices, and place-based problems. The EDD perspective offers three general principles and three institutional design principles to illustrate the scope for place-based deliberative capacity building. The general principles are: (i) a focus on specific, tangible problems, (ii) involvement of ordinary people affected by these problems and officials close to them, and (iii) the deliberative development of solutions to these problems. Three institutional design features help to reinforce these general principles: (i) the devolution of public decision authority to empowered local units; (ii) the creation of formal linkages of responsibility, resource distribution, and communication that connect these units to each other and to more centralized authorities; and (iii) the use and generation of new state institutions to support and guide these de-centred problem solving efforts rather than leaving them as informal or voluntary affairs (Fung and Wright, 2001: 17).

The most important objective of deliberative democratic experiments, according to EDD advocates, is to advance public ends more effectively than alternative governance models such as command and control hierarchies and market-based solutions. But how and why should this be the case? The main reason, it is claimed, is the greater problem-solving capacity of the EDD approach because: (i) these experiments convene and empower individuals close to the points of action who possess intimate knowledge about relevant situations; (ii) in many problem contexts, these individuals, whether they are citizens or officials at the street level, may also know how best to improve the situation; (iii) the deliberative process that regulates these groups' decision making is likely to generate superior solutions than hierarchical or less reflective aggregation procedures (such as voting) because all participants have opportunities to offer useful information and to consider alternative solutions more deeply; (iv) these experiments shorten the feedback loop—the distance and time between decisions, action, effect, observation, and reconsideration—in public action and so create a nimble style of collective action that can quickly recognize and respond to erroneous or ineffective strategies (Fung and Wright, 2001: 26). Whatever the practical merits of these arguments, the efficacy of the EDD problem-solving approach is an empirical rather than a theoretical question.

What are the main barriers to this problem-solving approach? A number of potential barriers have been identified, not least by EDD advocates themselves, who say: *"Perhaps the most serious potential weakness of these experiments is that they may pay insufficient attention to the fact that participants in these processes usually face each other from unequal positions of power. These inequalities can stem from material differences and the class backgrounds of participants, from the knowledge and information gulfs that separate experts from laypersons, or from personal capacities for deliberation and persuasion associated with educational and occupational advantages"* (Fung and Wright, 2001: 33).

Asymmetries of power and knowledge mean that citizens rarely if ever play on a level playing field when they engage in public deliberative forums. As we have seen, this was the problem that exercised Dewey in the 1920s; it was one of the problems that impaired the Inner Areas Strategy in Italy; and it is a problem that needs to be addressed with more imagination and more urgency if citizens are to be genuinely involved in the design and delivery of policies that affect the character of development and the quality of public services in their localities and regions. Formal political institutions – such as national or subnational parliaments – have been nominally responsible for development matters and public service provision, but this is no longer enough because *"the liberal democratic image of politics as an activity proceeding exclusively through the national parliament is, in contemporary times, questionable"* (Gaynor, 2009: 306). To dismiss participatory methods as undermining a system of equal representation is therefore to set up a false comparison. Drawing from democratic experiments in the global north and the global south, Gaynor identifies the importance of structuring communication within the participatory process to ensure a more democratic process and outcome. Specifically, *"democracy can be deepened when governance deliberations and negotiations are conducted under conditions of vibrant public debate and genuine perspective-based representation and when the communicative and discursive norms are widened to allow for such representation"* (Gaynor, 2009: 305). The barriers to this approach include (i) norms that restrict the discussion of issues deemed important by one or more of the participants, or that limit citizens to input on predetermined topics; (ii) narrow forms of communication that favour an elite and so restrict wider participation; and (iii) a lack of transparency that prevents public debate on both the deliberative process and the subsequent actions.

To overcome these barriers we may have to look backwards to help us move forwards by reclaiming and updating some of the ideas that motivated the likes of Jefferson and Dewey, who were both attracted to the idea of "ward republics", the locally-embedded institutions of a participatory democracy. Some of the proposals for re-inventing democracy in America are influenced by these earlier ideas, like the "deliberative panels" and "civic juries" that fashion political institutions that foster rather than frustrate active citizenship (Fishkin, 1991; Leib, 2004). As place-based institutions, however, the concept of the ward republic is much more problematical today, not least because a purely territorial conception of place has been jettisoned by relational geographers on the grounds that it is ontologically untenable in a multiscalar world where globalisation and digitalisation have jointly spawned a more complex "global sense of place" (Massey; 2005; Allen and Cochrane, 2007).

Modern pragmatists in the Deweyian tradition also freely acknowledge that learning *across* localities is as important as learning within them because: "the fundamental problem today seems not how to preserve or foster creation of natural communities, but how to encourage sufficient explication of tacit knowledge to make exchange and learning among "strangers" possible without undermining the conditions that foster informal dealings and reciprocity" (Sabel, 2012: 42).

Like all models of governance then, the experimentalist governance model continues to struggle with the trilemma of how to calibrate the contending claims of democracy, deliberation and devolution, all of which have a legitimate part to play in socially inclusive place-based development strategies.

7. Conclusions and key questions

Experimentalist governance, in the strict sense of the term used by Sabel and Zeitlin, is an intellectually compelling but politically challenging model. At the heart of this particular model is the claim that hierarchical management and principal-agent governance have been compromised by the advent of strategic uncertainty. My discussion focused on two key propositions of the model: (a) the public sector's commitment to and its capacity for learning-by-monitoring and (b) the degree of autonomy and discretion afforded to local units in the multilevel polity and the alleged demise of hierarchy. These are big asks in lagging regions, where the institutional capacity is simply not up to the challenge and this constitutes one of the main issues to be discussed at the OECD seminar in December.

Taking experimental governance in the looser sense of the term, experimentalism is clearly an idea whose time has come because institutional experiments are proliferating at every level of the multilevel polity, especially with respect to place-based development policies.

With respect to place-based policy in the EU, we saw that there were two major problems with the experimentalist governance model: the upper tier (the European Commission) has neither the powers nor the requisite skill set to fulfil the roles envisaged by the Barca Report; while the lower tier (the regions) enjoys very limited autonomy because regional actors are stymied by the excessive regulations of an audit regime that extols compliance over innovation. If the proposed Multiannual Financial Framework 2021-2027 is accepted, however, the problem of excessive regulation will be reduced because there will be a leaner and more agile budget and less red tape for beneficiaries.

State-sponsored experimentalism was addressed in two radically different national contexts. The authoritarian state context is instructive because it shows – in China for example – that local experiments can thrive under the most elaborate hierarchies if there are well established mechanisms and procedures for nurturing and scaling them. But in other top-down contexts – like Russia for example – the "rules of the game" offer few incentives to experiment with novelty.

Liberal democracies, as we might expect, are the most active in promoting experimentalist initiatives and the three examples examined in the paper – the new industrial policy paradigm, the entrepreneurial state thesis and the public sector innovation lab – all serve to underscore the growing importance attached to public sector innovation in the broadest sense of the term. Although these experiments are bedevilled by the challenge of how to deal with failure, feedback and learning, an even greater challenge is how to resolve the tension between austerity and sustainability. That is to say, how to manage the tension between the evisceration and diminution of the public sector through austerity-driven budget cuts on the one hand and, on the other, the need for a smart public sector that has the competence and confidence to play a more innovative role in the sectors – like education, heath, dignified eldercare, energy, transport, food security, etc. – that lie at the heart of our societal challenges.

With respect to the subnational worlds of experimentalism, I sought to contrast conventional theories of place-based development – regional innovation systems, city-regionalism and new localism – with new and more radical theories, such as the foundational economy. While the former tend to focus on the conventional metrics of economic development, on instrumentally significant goals so to speak, the latter focuses on intrinsically significant goals in the sense that they aim to meet human needs directly by furnishing the mundane

goods and services that constitute the "infrastructure of everyday life". Perhaps the biggest challenge for the foundational economy perspective is how to secure the political settlements that are necessary to fund providential services like education, health and social care.

Finally, the paper addressed aspects of our current political conundrum. With polarised politics and nativist sentiment on the rise in many OECD countries, the fundamental values of the democratic polity are being questioned like no time since the 1930s. To the extent that territorial inequalities are implicated in this process, and there is a good deal of evidence to suggest that they are (Rodriguez-Pose, 2018), the role of place-based policy assumes that much more significance. As regards the future of place-based policy, I suggested that, to be more effective, such policy will need to meet two necessary conditions: (a) that subnational institutions are invested with more autonomy to design and implement policies that are better attuned to their local circumstances, albeit with the help of the multi-level polity and (b) that the citizens of "left behind" places are empowered to play a more active role in the transformation of their localities through more deliberative forms of democratic engagement. Asymmetries of power and knowledge are the main barriers to such strategies today, just as they were in John Dewey's day, when "democratic realists" suggested it was naive to think that more egalitarian worlds were possible.

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