Does politics matter? Regional development in the EU

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Abstract

Empirical evidence now points to institutions as the missing link in understanding regional disparities (Gertler, 2010; Rodriguez-Pose, 2013). This has become apparent with recent attempts (e.g. Charron, Dijkstra and Lapuente, 2014) to measure institutions at a regional level. However, previous studies have only measured one dimension of political institutions, either quality of regional government (Charron et al., 2014; Rodriguez-Pose & Di Cataldo, 2014) or strength of regional authority (Marks, Hooghe & Schakel, 2008; Ezcurra & Rodriguez-Pose &., 2011) but this paper will consider both including the interaction between them.

The paper takes an interdisciplinary approach (Klein, 2008) drawing from innovation studies (Lundvall, 2013), evolutionary economic geography (Boschma & Frenken, 2006) and political science (Jessop, 2016). This is important for creating the necessary borderlines to allow for differentiation and engaged pluralism to allow borrowing between the subject areas (Lundvall, 2013; Hassink, 2014).

The paper leverages on the existing work on the quality of government (Charron et al., 2014) and regional authority index (Marks et al., 2008). It uses panel data on the EU NUTS 2 regions and a dynamic econometric model for data analysis. The paper contributes to understanding of how political institutions affect regional economic development. The findings will also provide recommendations to guide the EU’s Cohesion policy and related policy. Otherwise, regional disparities will pose an existential threat to the nation-states and the EU (Dudek, 2005; Moreno, 2006; Fitjar, 2010).

Jelcodes: O18,R59

Key words: institutions, regions, quality of government, regional authority, economic development

References
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\textbf{Topic: Does politics matter for regional development?}

\textbf{Working paper}
Abstract

This is a working paper on how political institutions affect regional economic development. It is conceptual and presents a traditional literature review as well as proposes a model for further econometric analysis. Accordingly, empirical evidence now points to institutions as the missing link in understanding regional disparities, in particular, uneven economic development. This has become apparent with recent attempts to measure institutions at a regional level. However, previous empirical studies have only measured one dimension of political institutions: either the quality of regional authorities or the strength of their representativeness. This paper considers both the quality and strength of regional authorities as well as their interaction. It critically reviews the literature in innovation studies, evolutionary economic geography and political science. In addition, it suggests the hypothesis as well as model to be tested. The paper contributes to theory testing, in particular, how formal institutions affect regional economic development.

Key words: political institutions, regions, quality of government, regional authority, economic development, innovation.
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1. Introduction

The central aim of evolutionary economic geography is to describe and understand the uneven distribution of economic activities in space and their evolution over time (Boschma & Frenken, 2006). Particularly so, when the region has been rediscovered as an important economic phenomenon (Amin, 2004). However, against this background, there is empirical evidence pointing to growing disparities between regions within and across countries despite convergence of factors at the national level (Rodríguez-Pose, 2013). While this phenomenon applies globally, the same appears to be the case in the European Union (EU) (Ascani et al., 2012).

Anecdotal evidence points to some challenges in the EU. Fitjar (2010) argues that regional disparities seem to be a contributing factor. Interestingly, the recent EU report, *My region, my Europe, Our Future: Seventh report on economic, social and territorial cohesion* (EU, 2017) paints a positive but mixed picture. The report shows that GDP per head in less developed regions is converging towards the EU average, but some regions are stuck in a ‘middle-income trap.’ Furthermore, the report highlights that innovation in the EU remains highly concentrated in some regions than others, mainly in North-Western Europe with region in South-Eastern Europe lagging behind. According to the report, even innovative regions in South-Eastern Europe are less strong and consistent with Howells (2005) argument, deliver little spill-over benefits to peripheral areas.

Against the above background, the challenge for policy makers and practitioners is that there is centre- periphery divide with some regions becoming winners moving to the centre of economic competitiveness and others becoming losers remaining stuck at the periphery of economic development (Dudek, 2005, Shefer & Frenkel, 2011). Thus, on the one hand, this core-periphery dichotomy creates a vicious cycle of underdevelopment and further reproducing more disparities in peripheral regions. On the other hand, there is a danger of contested opportunity spaces as more and more people migrate to core regions.

Earlier perspectives from regional innovation systems and economic geography such as Cooke (2002), Asheim and Coenen (2005), Boschma and Frenken (2006) and
Morgan (2007) have attributed these regional disparities to the nature of knowledge, its territorial embeddedness and proximity factors. The argument is that the territorial nature of knowledge makes it sticky and requires localised learning processes that are grounded in social interactions (Asheim et al. 2005). While this explanation has inspired interventions targeting innovation and the knowledge economy, according to Rodríguez-Pose (2013), the results have not been promising. He argues that efforts to reduce regional disparities by implementing innovation policies and increased investments in R & D have partial produced promising results. As such, he further argues that understanding regional disparities remains a challenge. Thus, learning and knowledge is necessary for regional economic development but it is not sufficient unless there is an understanding of the social conditions that underpin them (Putnam, Leonardi & Nanetti 1994; Rodríguez-Pose 1999; Lazonick, 2005).

New perspectives, now points to institutions as the missing link (Rodríguez-Pose, 2013). As such, institutions have emerged as the central explanandum in understanding uneven development among countries (Acemoglu, Johnson & Robinson, 2002) and regions (Amin, 2004; Rodríguez-Pose, 2013). Although they have been well researched at the national level, this has not been the case at the regional level (Gertler 2010; Rodríguez-Pose, 2013). Arguably, interest at the regional level has emerged as variation become apparent with recent attempts (Charron, Dijkstra & Lapuente 2014) to measure institutions. However, in light of the scant research on institutions at the regional level, the phenomenon remains poorly understood (Gertler, 2010).

This paper argues that political institutions (Acemoglu et al., 2002; Rodríguez-Pose, 2013), their quality (Charron et al., 2014) and representativeness (Hooghe et al., 2016) matter for regional economic development. However, previous studies have only measured either one dimension of political institutions, the quality of regional government (Charron et al., 2014; Rodríguez-Pose & Di Cataldo, 2014) or its strength (Hooghe et al., 2016). This paper proposes a combination of both including the interaction between them.

In summary, the paper takes an interdisciplinary approach (Klein, 2008) drawing from innovation studies (Lundvall, 2013), evolutionary economic geography (Boschma &
Frenken, 2006) and political science (Jessop, 2016). However, this does not mean an exhaustive literature review on the disciplinary areas but a stylised approach to foreground the study. This is important for creating the necessary borderlines to allow for differentiation and boundary crossing for engaged pluralism to allow borrowing between the subject areas (Lundvall, 2013; Hambrick & Chen, 2008 in Fagerberg et al., 2012a; Hassink, 2014).

This interdisciplinary approach views innovation and the economic activities as evolutionary and territorially embedded processes that interact with social and institutional conditions (Asheim & Coenen 2005; Boschma and Frenken 2006; Coenen et al., 2017). At the same time, it views politics as influencing the history that shapes contemporary patterns of regional economic development (MacKinnon et al., 2009). The argument is that institutions (Rodríguez-Pose, 2013), their history (Coenen et al., 2017), geography (Boschma and Frenken 2006) and politics (MacKinnon et al., 2009), matter for understanding regional disparities.

The rest of the paper follows this structure: first, it provides a theoretical framework in which a critical review of literature is undertaken to identify the research gap and propose a hypothesis. Second, it proposes a model for testing the hypothesis. Finally, it concludes with a summary highlighting the state of the research as well as potential research gaps and the paper’s implications for both theory and practice.

2. The theoretical framework

According to Rodríguez-Pose (2013), formal institutions are universal and transferable rules and generally includes constitutions, laws, charters, bylaws and regulations, as well as elements such as the rule of law and property rights and contract and competition monitoring systems. These formal institutions are also characterised as social organisations including political and economic institutions (Acemoglu et al., 2002: 2005). Acemoglu et al. (2002) argue that political institutions influence economic ones and consequently the outcomes of economic development.

Acemoglu et al., (2002) argue that these political institutions can be classified as either extractive or inclusive depending on whether they are working in the interest of elites or every citizen. Thus, the quality of these formal institutions can either constrain or facilitate economic development (North 1990; Nelson and Nelson 2002; Rodríguez-
Pose 2013; Charron et al., 2014). This value-orientation or characterisation of political institutions by Acemoglu et al. (2002) presents an anatomy of power, which MacKinnon et al. (2009) argue is silent in both innovation studies and evolutionary economic geography. They further argue that the economy is a politically contested phenomenon that evolves in space and time.

Christopherson (2008) also expresses the above view on the neglect of politics in economic geography in her review and criticism of Local and Regional Development, a book by Andy Pike, Andrés Rodríguez-Pose and John Tomaney (2006). Inversely, Jeffrey and Schakel (2013) argues that political science has equally neglected economic geography, in particular regional studies and has been preoccupied with studying the power relations and their dynamics at a national level. This neglect in political science has been described as methodological nationalism that has traditionally characterised social sciences (Wimmer & Glick Shiller 2002; Chernilo 2006; Jeffery & Schakel 2013). Notwithstanding this, according to Jessop (2016) there is a rescaling of power along a multi-scalar dimension from the supra-national, national and regional level. Therefore, this requires an examination of political institutions at the regional level (Rodríguez-Pose 2013). Not only as a politically contested phenomenon MacKinnon et al. (2009) but Hooghe et al (2016) adds, a mutually constructed phenomenon and expression of human sociality.

In the light of the above, the argument by Acemoglu et al. (2002) that political institutions matter for economic development is in the context of countries. In the same vein, MacKinnon et al. (2009) and Rodríguez-Pose (2013) put it in the context of regions and argue that politics matters, it shapes history, which influences institutions, and in turn economic development. Accordingly, political science examines power, its structures, actors and their interactions (Jessop, Brenner & Jones, 2008; MacKinnon et al., 2009; Jessop, 2016). However, the conceptualisation of power in regional studies remains a challenge with the role of the state ambiguous (Jessop et al., 2008) and according to MacKinnon et al. (2009) there is a tendency to overstate the power of regional authorities. Particularly so, given the limitation of what regional governments can do (Tomaney, Pike & Rodríguez-Pose, 2010).
According to Hooghe et al, (2016: 5) democracy poses a long-standing question,

“This is the Who question: who should have the right to make collectively binding decisions... Democracy does not provide an answer. The principles that underpin democracy says nothing about who the people are. Majority rule, yes, but a majority of which people? Minority rule, but in relation to which majority?

The above poses further question on the conceptualisation of power and the processes of ordering, bordering and (re)production of space (Jessop, 2016; Öjehag-Pettersson, 2015). As such, Jessop (2002) argues for a shift from power over to power with and more importantly, according to Rodriguez-Pose (2013) government to governance. However, according to Hooghe et al. (2016) this is not enough, they further question the functional perspective of governance. They argue that a functionalist perspective sees government from what it does and not what it is. Alternatively, they propose a post-functionalist perspective multi-governance. Thus, according to them, governance is about not only what it does but also what it means for communities, in particular, their right to self-rule and co-determination of shared rule. Their argument resonates with Putnam et al. (1994: 8) that institutions are devices for achieving a purpose and not just an agreement.

Arguably, multi-governance is a useful concept given territorial rescaling along multi-scalar dimensions from the subnational, national, supra national levels and even global engagements (Marks, Hooghe & Blank, 1996; Jessop, Brenner & Jones, 2008; Murphy, 2008). This has implications for policies including innovation suggesting not only a top down but also bottom up approach in a mutually reinforcing and dynamic interplay (Howells 2005; Rodríguez-Pose, 2013). This approach also resolves the contested meaning of a region and is consistent with the view and compromise to consider a region as a relational and at the same time territorial phenomenon that is both “bounded” and “porous” with the latter open and discontinuous (Fitjar, 2010; Meegan 2017).

Against these developments, there is need to understand the implications of political institutions on regional economic development (Rodriguez-Pose, 2013). As alluded earlier, this requires an understanding of two dimension, first, the purpose or function
(Putnam et al. 1994; Hooghe et al. 2016) and second, the meaning (Hooghe et al. 2016) of governance. Thus, the first can be taken to refer to the procedures and processes for delivering the public goods, in particular the quality of doing so (Charron et al., 2014). The second refers to how these procedures and processes are arranged in space and their representativeness, in particular, answers the Who question: Who does what and where? (Hooghe et al., 2016). The quality of political institutions and their representativeness matter for regional economic development (Rodríguez-Pose and Storper 2006; Rodríguez-Pose, 2013; Charron et al., 2014).

According to Putnam, Leonardi and Nanetti (1994: 9), “…the quality of government matter to the people's lives: Scholarships are awarded, roads paved, children inoculated- or (if government fails) they are not. According to Rothstein, Charron and Lapuente (2013) quality of government remains a subjective term, thus despite a proliferation of multi-disciplinary studies on the subject, the concept remains challenging. They further argue that this is also due to the fact the concepts behind quality of government such as corruption cannot be measured directly. Although they acknowledge many similar concepts to quality of government, good governance and state capacity is mostly terminological, the interpretation and application is different. Therefore, Rothstein et al. (2013) argues that there is need to make a distinction between a procedural and substantive definition. At the same time, they warns that we cannot run away from normative political theory, in particular political philosophy. He notes that whilst modern political philosophy has engaged on, “What the state ought to do”, it has nonetheless refrained from “what the state can do”, yet it is meaningless to deliberate on one without the other.

Based on the above argument, Rothstein et al (2013) goes on to offer a procedural definition by building on ideas of Brian Barry, John Rawl and Robert Dahl by looking at the norms that characterises institutional norms. It seems they also takes what Searle (2005; 2006) terms a social ontological approach and the uses explanatory mechanisms to arrive at the procedural definition. Thus, Searle (2005: 2) argues that in order to understand the ontology or the mode of existence of a phenomenon one does not ask:

‘What is truth?’, but ask, ‘Under what conditions do we say of a proposition
that it is true?’ Do not ask, ‘What is a number?’, but ask, ‘How do numerical expressions function in actual mathematical practice?’

Therefore, according to Rothstein et al (2013), for example the quality of government as impartial refers to the impartial exercise of public power or implementation of policies. Building on the same argument, Charron et al.(2014), the emphasises is the importance of how a government delivers its policies, instead of what a government deliver but focuses on the extent to which is done in an effective, impartial and without corruption. Therefore, they argue that the quality of government means the extent to which a government delivers the public goods in a manner that is impartial, efficient and non-corrupt

Empirical studies by Charron et al. (2014) at both national and regional level, have focused on quality of government looking at four dimensions: control of corruption, rule of law, government effectiveness and government accountability (Charron et al., 2014). Thus, firstly, scholars argue that corruption affect the quality of government. A study by Del Monte and Papagni (2001) on Italian region found a significant and direct negative effect of corruption on the growth rate. Corruption takes away the incentives for innovation and productive economic activities (Rodríguez-Pose, 2013).

Second, the rule of law means the government guarantees property rights and individual rights, economic rights and everybody is equal before the law and lives in a society with equal opportunities (Rodrik, Subramanian & Trebbi, 2004; Rodríguez-Pose, 2013). Third, government effectiveness translates into efficiency that stimulates economic activities (Charron et al., 2014). Fourth, government accountability is important to find the people’s voice in influencing public policy and co-action (Christopherson 2008). It seems both government effectiveness and accountability results in public support for policies (Rodríguez-Pose, 2013). Empirical studies by Charron et al. (2014) and independent studies on EU regions by Rodríguez-Pose and Di Cataldo (2014) have demonstrated the causal link between the quality of regional governments and economic development.

The most contested and intrinsically difficult question in politics, according to Hooghe et al (2016) as alluded earlier is The Who question and in particular, the meaning of governance. Their argument is that that the theory of governance should at least explain the territorial structure of authority, its dimensions and scale. They further argue
that the multi-scalar dimension and territorial rescaling of governance is self-evident in many parts of the world. Interestingly, they suggest that it will be difficult to find a government, which does not exercise any division of power and duty along some continuum from national to local authorities. They note that even some despots want some form of buy-in and legitimacy. More importantly, they argue that communities wish “to retain their independence” but “…want the benefits of scale…” (Hooghe et al., 2016: 8).

The above phenomenon is more visible in Europe with strong arguments for the devolution of power from the centre to the local level (Ezcurra & Rodríguez-Pose, 2011). While these demands are prevalent at the national level, they have reproduced themselves at supra-national EU level against accusations of a democratic deficit and a visible technocracy (Habermas 2015). This is not just driven by the demands for representativeness and self-government but also cultural identity and dissatisfaction with regional disparities (Moreno 2006; Fitjar 2010; Hooghe et al., 2016). Nonetheless, territorial rescaling, in particular, decentralisation to the point of action and representativeness is important if regions are to be organised as locations for economic development (Storper 1997; Jessop, Brenner & Jones 2008; Gertler, 2010). Therefore, there is need to look at the strength of regional authorities in response to increased political decentralisation (Marks et al., 2008; Ezcurra and Rodríguez-Pose 2011).

Marks et al. (2008) developed a regional authority index to measure the extent of self and shared rule of regional authorities. Self-rule looks at five elements: policy scope, autonomy, and executive, fiscal and borrowing control (Hooghe et al., 2016). The shared rule also has five elements, three that are the same with self-rule: executive, fiscal, borrowing control and two different additional elements: law making, constitutional change (Hooghe et al., 2016). However, this regional authority index has received criticism for lacking measures for local governance and its treatment of federal and non-federal countries (Schakel, 2008). Schakel (2008) argues that the regional authority index covers almost all aspects covered by the other indicators but differs in its precision to focus on regional authorities with a minimum jurisdiction for a population of 150 000 and do not consider interest groups.

Empirical research shows that regional authorities have been effective in some areas of policy implementation such as social and environmental policies but not in others.
(Borghetto & Franchino, 2010). However, the problems that Rodríguez-Pose and Storper (2006) highlight that at community level strong interest groups, pervasive rent seeking behaviour, nepotistic practices and clientelism can become magnified in the context of strong regional authorities but a weak quality of government. This argument is confirmed by earlier empirical studies by Putnam et al. (1994) involving cases of twenty regional governments created in Italy in the 1970s based on almost identical constitutional structures and mandates except the five autonomous regions. Their findings suggest that some regional governments were more effective compared to others. Ezcurra and Rodríguez-Pose (2011) argue that empirical studies that use the regional authority index have produced mixed results.

A summary of the literature review and research is presented in Figure 1. It sums up the state of the art on political institutions and regional economic development (RED). It states what has been researched, the identified gap and accordingly the hypothesis is stated.

Figure 1: Mapping of the literature review, research gap and hypothesis.

According to Figure 1, empirical studies have look at one dimension either the quality of regional governments (Q.o.G) or the strength of their representativeness (measured by regional authority index, RAI). Therefore, there is a need for further investigation to test a combination of both as well as testing the interaction between them. Hence, the following hypothesis:
H1: The quality of regional government is associated with economic development if the regional government has sufficient authority.

It is also important to highlight that there is debate on what influences the other, institutions (Acemoglu et al., 2002) or economic development (Glaeser et al., 2004). Nelson and Nelson (2002) argue there is mutual causation between institutions and economic development whereas Acemoglu et al., (2002) and Glaeser et al., (2004) emphasise and observe the direction of causality in opposite directions. Acemoglu et al. (2002) argue that there is mutual causation between institutions and economic development but the direction is mainly from the institutional side. Glaeser et al. (2004) argue the opposite is true and goes on to test and confirm their argument. However, this does not point to the refutation of Acemoglu et al. (2002) but rather seems to suggest that both findings are inconclusive and perhaps need for further empirical tests. At the same time, these studies were at the national level and implications of their findings at the region level is not known. While on the one hand, some scholars (Rodríguez-Pose & Storper 2006) argue for the need to test the interaction between institutional arrangements and economic outcomes. On the other hand, other scholars (Rodríguez-Pose & Di Cataldo 2014) warns on the complexity of doing so. Accordingly, this paper does not intend to do so but considers the argument by Rodríguez-Pose and Di Cataldo (2014) that testing interaction between institutions and economic outcomes is very complex with the direction of causality is like to go in either direction.

3. Model and research design

The paper proposes a quantitative and comparative cross-national study of EU (NUTS2) regions using panel data methods. Interestingly, scholars rarely offer the definition of a region, its conceptualisation remains problematic and complex as a real and imagined phenomenon (Fitjar, 2009; 2010; Pass & Metzger, 2017). Paas and Metzger (2017) argue that there is a large corpus of literature of “labelling”, “conceptualisation” of what is, and what makes a region. Accordingly, they argue for the need to foreground the definition of a region. Therefore, in this paper, a region is not a rubbery concept in as in Hooghe et al. (2016) but defined by Eurostat-European Commission (2011) to be an administrative area at a subnational level with a population between 800 000 to 3 million. This definition is normative and satisfies administrative purposes. In the EU, it is an acceptable framework for the application of
regional policies as well as analysing regional and national problems (Eurostat-European Commission, 2011).

The study will use secondary data from the European quality of Government Index (Charron et al., 2014) and the Regional authority index (Marks et al. 2008). These two data sets will be merged to develop a regional data set for measuring political institutions. Data management best practices including documentation of all steps and changes in the data sets will be done to allow for replication of the study, if needs be.

3.1 Empirical Model

The causal link between political institutions and regional economic development will be tested through a multivariate regression analysis using the following model:

\[ \text{GDPR}_{i,t} = \alpha + \beta_1 \text{Institutions}_{i,t-1} + \beta_2 \text{GDPR}_{i,t-1} + \beta_3 \text{Controls}_{i,t-1} + \varepsilon_{i,t} \]

Accordingly, following hypothesis will be tested:

**H1:** The quality of regional government is associated with economic development if the regional government has sufficient authority.

The paper will use the same empirical approach used by Rodríguez-Pose and Di Cataldo (2014). The model will include interaction terms to examine complementarities and heterogeneity as well as test for robustness, endogeniety (e.g. instrument variables) and the predictive power for different development outcomes. Depending on the estimation method (e.g. GMM dynamic panel estimation), the model will be adjusted accordingly.

3.2 Dependant variables

Economic development will be measured using economic growth and innovation indicators. In the model, GDPR will be substituted by INN to test for innovation. However due to measurement challenges both will be measured using proxies (Rodrik et al., 2004; Feldman & Storper 2016).

Economic growth will be measured using growth in gross domestic product by region (GDPR) as a proxy (Rodrik, Subramanian and Trebbi 2004). According to Feldman
and Storper (2016: 7) economic growth can be defined in the following manner: “…many others conceptualize an economy as a machine that produces economic output as a function of inputs such as labor, land, and equipment. Output can increase either when we add more inputs or use technology or innovation in order to enhance the efficiency with which we transform inputs into outputs. Subsequently, growth occurs when output increases.”

Innovation has many definitions depending on the context (Lundvall 2013). It can be broadly defined as the “new combinations”, of “new” or existing knowledge, resources and even equipment to produce “new knowledge” such as products, services, new supply sources and new method with an economic impact (Schumpeter 2013) However, due to the many definitions and a broad context of innovation, there are measurement challenges (Fagerberg, Mowery & Nightingale 2012). One of them is the availability of data and this has resulted in the traditional use of patents (Nagaoka, Motohashi & Goto 2010). Although this has been criticised (Hall, Mairesse and Mohnen 2010) as only measuring technological innovation, according to Rodriguez-Pose (1999) the problem of availability of data is even more multiplied at a regional level leaving patents as the most reliable source, at least for now. Therefore, this paper will use patent data from the European patent office (EPO) to measure innovation (INN).

3.3 Explanatory variables

The quality of government measures the extent to which subnational regional authorities financed, administered or politically accounted for three public services: education, healthcare and law enforcement, with respect to their rating or perception along three dimensions: 1) Quality, 2) Impartiality and 3) level of corruption (Charron et al., 2014). This measures are based on people perceptions. The source of the data is the European QoG survey (Charron et al., 2014).

The strength of regional authority is measured using the regional authority index and has two dimensions, self-rule and the shared rule. Regional Authority Index data (Marks et al., 2008). According to Hooghe et al (2016), self-rule is the authority exercised by the subnational authority in its own territory with respect to five components: 1) Policy scope, 2) Autonomy, 3) Executive, 4) Fiscal, 5) Borrowing
control. They also define shared rule as the authority that a subnational authority co-exercised in the country as a whole with respect to five components: 1) Law making, 2) Executive, 3) Fiscal, 4) Borrowing control, 5) Constitutional change.

3.4 Control variables

Social phenomena are complex (Storper, 2011) with multiple causality (Bhaskar in Elder-Vass, 2010). Accordingly, the appropriate control variables will be identified. A few examples, first, sectors and industry as economic activities are unevenly distributed across space (Boschma & Frenken, 2006) and could be sources for regional variation. Second, productivity efficiency has been found to be significantly different among regions but have accounted them to institutions (Acemoglu & Dell, 2010). Third, population and area size are argued to influence regional dynamics but Charron et al (2014) did not find link between population and QoG. However, they suggest that studies to this effect are spare and their findings remain inconclusive.

4. Conclusions

This paper argues that how political institutions matter regional economic development. However, it also argue that research on political institutions at regional level remains inconclusive. Although empirical research has looked at the quality of government and strength of regional authorities, they have been tested in isolation and not as a combination. This study aims to test both the quality of government and strength of regional authorities as well as the interaction between them. The study will have implications for both theory and practice. At a theoretical level, it will contribute to theory testing on how formal institutions affect regional economic development. At a practical level, the findings on the proposed empirical study will provide recommendations to policy in the case of the EU.
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