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Abstract: The purpose of this paper is to consider some of the challenges lying ahead of policy makers in the context of regional development. Regional economic development encompasses the economics and other resources that a region can mobilize for its own sustainable development and competitiveness. It is only recently that regions have developed tools and means for analysing the performance of their firms and organizations. Public and private governance bodies have recognized that ever-changing economic conditions bring renewed externalities, which are difficult to capture. Gaps in regional performances have been attributed to important, but often intangible factors such as social capital. Regional economics has taken on board those concerns by considering networks, trust and local procedures in their studies. Nevertheless, the issue remains that regional governance seems intractable in market terms alone. In this paper, we tackle the issue of governance in the context of regional development thanks to Buchanan's approach of choices and costs. To provide such an assessment, we contribute by merging economics and sociology, where we shift the cost focus from the classic economic concern for equilibrium towards a concern for social utility.

Keywords: Regional Development, Social Capital, Governance, Networks, Public Choice, Property Rights, Cooperation, Trust

JEL codes: P48, R11, R58, A14, B25, D7

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1- Introduction

The purpose of this paper is to consider some of the challenges lying ahead of policy makers in the context of regional development. Regional economic development encompasses the economics and other resources that a region can mobilize for its own sustainable development and competitiveness. It is only recently that regions have developed tools and means for analysing the performance of their firms and organizations. Public and private governance bodies have recognized that ever-changing economic conditions bring renewed externalities, which are difficult to capture. Gaps in regional performances have been attributed to important, but often intangible factors such as social capital. Regional economics has taken on board those concerns by considering networks, trust and local procedures in their studies. Nevertheless, the issue remains that regional governance seems intractable in market terms alone. In this paper, we tackle the issue of governance in the context of regional development thanks to Buchanan's approach of choices and costs. To provide such an assessment, we contribute by merging economics and sociology, where we shift the cost focus from the classic economic concern for equilibrium towards a concern for social utility. Therefore, we first consider in some details an utilitarist framework of cooperation for regional economic governance through the concept of social capital. Second, we review fully five dimensions of regional economic governance providing an assessment of such policies in terms of choices and costs. Finally, we conclude by a synthesis offering sensible considerations to renew regional political economy. It consists in an evaluation of regional governance dimensions done by relative high and low costs of transaction valuation. We confirm that policy makers should consider those tools of assessment if they want to answer challenges of sustainable regional development in a global world.

2- Regional Economic Development

The role of social capital giving structure to regional economic development has traditionally tended to be neglected among most economists. The main reasons was that the development of mainstream economics did move away from phenomenon that could not be addressed with equilibrium models, such as the imperfect use of economic knowledge, ignorance and uncertainty, changes through time and economic conditions. However, the last 20 years, the trend has partially reversed itself. For example, Blakely (1994, p. xv) defines regional economic development as:

> … a process in which local governments or community based organizations are engaged to stimulate or maintain business activity and/or employment. The principal goal of local economic development is to stimulate employment opportunities in sectors that improve the community, using existing human, natural and institutional resources.

This definition of regional economic development assists for scrutinizing two main stylised actors, namely the economic and local governance actors, to act collaboratively for the sake of regional development. In other words, both actors are gathering resources to produce public goods. In this sense, social capital can be seen from the public-good aspect, i.e. forming "an attribute of the social structure in which a person is embedded" and where "social capital is not the private property of any of the persons who benefit from it" (Coleman, 1990: 315). Stimson et al. (2006: 6) definition specifies that the resulting public good emerge out of desired outcomes delivered to different public, business, residents and visitors and evaluated by satisfied values and expectations. It is clear that such agreement through business, inhabitants of a city or region, and visitors will be achieved through some kinds of network mechanisms. Henceforth, social capital has attracted a lot of interest amongst stakeholders in development policies including politicians, policymakers and journalists but also researchers in different academic fields such as economics, economic geography management, political science and anthropology. Notably, some scientists such as Buchanan & Tullock (1962), Coleman (1988 & 1990), Putnam, Leonardi & Nanetti, 1988 & Putnam, 1993), Portes (1998), Nahapiet & Ghoshal (1998) and Westlund (2006) have made some remarkable and path-breaking contributions.

In this paper, we focus upon the authors who have connected the effective performance of economies and democratic governance with strong norms of interpersonal trust and civic society. Therefore, we make an argument on governance assuming that public organisations are productive rather than protective. We argue for a strong argument for cooperation. In other words, we assumes that public agencies are interested in coordinating their objectives with contracting public and private parties, for the sake of producing collective goods. The weak argument would assume that public agencies are working with a philosophy of public action based on protective governance. In the weak argument, public agencies would be reduced to working essentially toward the enforcement of contract, not the cooperation between parties of the civil society.

Therefore, governance is building trust and consensual allocations of property rights, which generate norms valued by economic agents – norms, which are key factors for transactions in goods, service and labour markets (Miller, 1992). Many activities and exchanges are carried on successfully only if economic agents can rely on the future performance of other economic agents. Since, it is in principle impossible to write complete contracts, economic agents have to rely on other measures to secure the right performance of other economic agents, and thus, to secure low transaction costs. Mutual trust is one such element that creates an economic environment where other economic actors' commitments are taken as credible and enduring. In this view, Malecki (1991), Morgan (1997), Rosenfeld (1997), and Amin (1999) have highlighted, among others, the role played by social capital and more precisely the role of networks and trust in regional economic development.

As such social capital gained a growing interest as an approach for analysing the role of intangible factors, such as trust, networks and institutions in regional economic development via not only comparative advantage but also via competitive advantage (Porter, 1986). The competitive advantage approach emphasize that not only factor cost differentials are important but that also 'value factors' such as quality of life as well as human, cultural and social capital play a critical role for regional economic development. Some authors, such as e.g. Fukuyama (1995) claim that 'value factors' play an important role in the emergence of high-technology agglomerations, such as the Silicon Valley, where cooperation between small and medium-sized firms through formal and informal networks and alliances and connections with research universities generate an innovative climate through the combination of advanced R&D, entrepreneurs and venture capitalists. Similarly, Saxenian (1994) stress the role of cultural capital for the success of Silicon Valley by creating excellent opportunities for interaction with like-minded and diverse others.

In other words, social capital is linked to economic development through several different mechanisms. The critical role of trust, cooperation and credible commitment for the effective functioning of markets and thus economic development is stressed in institutional economics (North, 1990; Miller, 1992) as well as in common pool resource economics (Ostrom, 1990). Economic development can also be influenced indirectly of social capital through its influence on government performance (Knack & Keefer, 1997).

3- An Utilitarist View on Social Capital

Social capital is the overlapping mechanism that allows economic activities and governance, in the best of all worlds, to support the sustainable development and competitiveness of regions. In the tradition of the collusion between the state and some interests groups selected through the French Elite school networks, French sociologists Bourdieu & Wacquant (1992, 119) have defined social capital as "the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition." According to this definition, social capital has two components: i) a monopoly of resource that is connected with group membership and social networks, and ii) a lock-in effect aiming at maintaining the monopoly amongst the totality of relationships between actors. Another more encompassing definition is provided by Putnam (1995: 67) describing social capital as all "features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives." Stiglitz (2000: 64) stated that social capital is *inter alia* a "complement or substitute for market-based exchange and allocation". Becker has clearly proposed an utilitarist view of social capital showing that social capital reinforces individuals' utility function: "The utility function at any moment depends not only on the different goods consumed but also on the stock of personal and social capital at that moment" (Becker 1996). His concept of social capital includes individual preferences, created by their experiences, which "directly yield welfare rather than merely casually contribute to the production of other things that yield welfare" (Hardin 1999a).

Coleman (1988: 98) has proposed a more open definition of the concept retaining Becker's functional element whereby social resources increase individuals' utility (Coleman, 1993). Notice that for him social capital does not mechanically increase individual utility since social capital may very well be a resource but also a preference. In this paper, we use Coleman definition (1988: 98) since it attributes to social capital a productive function. It is in line with our argument 1- of the strong argument of a cooperative society and 2- of social characteristics encompassing individual utility, as well as purposive organizations:

> Social capital is defined by its function. It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Like physical capital and human capital, social capital is not completely fungible but may be specific to certain activities. A given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others.
>
> Unlike other forms of capital, social capital inheres in the structure of relations between actors and among actors. It is lodged either in the actors themselves or in physical implements of production. Because purposive organizations can be actors ("corporate actors") just as persons can, relations among corporate actors can constitute social capital for them as well (with perhaps the best-known example being the sharing of information that allows price-fixing in an industry.)

The actor increases its utility thanks to his social capital. This definition encompasses also institutional actors, i.e. actors representing a purposive institution[3]. Now, in order

[3] Utilitarism is defined along Harding line (1999b) whereby deliberation is considered "a device for the discovery of relevant causal relationship before they can produce any prescription at all." Here, we take that policy maker would be benefit to make a choice-cost analysis before engaging any policy prescriptions.

to provide an assessment of the governance issues related to regional economic development, we have to recognise purposive actors, and their social capital having common characteristics toward policies. For that matter, we propose a Buchanian's evaluative approach of the potential effectiveness of such policies. Therefore, one needs to recognise that individuals, individual representing institutions and individual in networks make choices and, in making such choices, are weighting costs and benefits.

Here we found the justification to develop the subjective theory of value allowing approaching opportunity cost away from classic predictive theory in economics. In economics, opportunity cost assumes a commodity dimension to cost. Accordingly, cost represents the anticipated utility loss from an alternative choice. For example, Coase ([1938], 1952: 123) defines opportunity cost as "the cost of doing anything consists of the receipts which could have been obtained if that particular decision had not been taken." However, this is not the kind of cost we are dealing with here. From the point of view of an individual actor, and presumably social capital constituted by institutional actors, making a choice is independent of bearing a direct cost for it (Arrow, 1977). To specify cost for both the private economic actor and the public government, we draw from Mises (1949: 97) explaining that "costs are equal to the value attached to the satisfaction which one must forego in order to attain the end aimed at." He specifies further (1949: 393):

> At the bottom of many efforts to determine nonmarket prices is the confused and contradictory notion of real costs. If costs were a real thing, i.e. a quantity independent of personal value judgments and objectively discernible and measureable, it would be possible for a disinterested arbiter to determine their

height… Costs are a phenomenon of valuation. Costs are the value attached to the most valuable want-satisfaction, which remains unsatisfied.

If one translates Mises' appreciation of cost in the area of policies assessment for regional economic development, one need to bring it in line with social utility maximisation. Therefore, we will be using the economic theory of choice and subjective cost to assess regional policies from the point of view of their social utility. Therefore, one needs to specify the following:

1- We assume that actors in economic processes and governmental bodies are not trading commodities with each other's but utility.
2- We assume that actors are reasonable actors. They seek as much as they possibly can, using their social capital, to serve the alignment between the economic actors with the public sectors, administrators, policy makers and politicians for the economic development of their region. In other words, we pose that actors are working under the utilitarian assumption that their association will produce better values, or lower costs in aligning their expectations to each other's for the sake of economic development.

Therefore, following Buchanan (1963; 1969) we will attempt to operational a subjective theory of choice, where choices made under different configurations of governance, needs to be approached from the point of view of identifiable trade-offs. Only so, we will be able to work with a theory of decision making which allows identifying responsibilities to organisation, cooperative or *ad hoc* constituted networks. In other words, this approach allows tying cost to choices made by private person or public entity alike.

In the following two sections, we will map out the kind of choices actors are making in order (a) to constitute social capital used in regional economic development and its associated costs and (b) to govern policies in regional economic development and its associated costs. In understanding the choice actors are logically offer to make in different transactional contexts, we will be able to provide a mapping of the cost there are facing, giving a sense of their liability to engage in such procedures in common and hopefully an essential assessment tool of policy efficiency.

4- Social Capital as Alignment of the Costs of Public and Private Choices

In the economic literature, researchers are mainly facing problem with the concept of social capital even though many attempts have been made to operationalize the concept and to link it to national and regional economic development. Studies claim to have found that differences in social capital between regions provide one credible explanation to differences in regional economic development (Putnam, 1993; Fukuyama, 1995; Knack & Keefer, 1997; Irwin, Tolbert & Lyson, 1998; Tao & Feiock, 1999; Abel & Stough, 1999; Gulati & Gargiulo, 1999; Zak & Knack, 2001; Guiso, Sapienza & Zingales, 2004; Ostrom, 2005; Chou, 2006; Antoci, Sacco & Vanin, 2007; Bartolini & Bonatti, 2008 a & b; Akcomak & ter Weel, 2009).

However, the value of many of these studies is limited due to two main empirical problems (Sabatini, 2008): 1- the use of macro indicators, such as crime rates, teenage pregnancy, blood donation, participation rates in tertiary education, etc., which generate confusion about what social capital is as well as its relationship to the outcomes analysed (Durlauf, 1999), and 2- the use of aggregated data without linkages with the social and historical circumstances in which trust, networks and social capital are located (Foley & Edwards, 1999; Fine, 2001).

Further, there is a lack of empirical studies of the effects of social capital on factors, such as human development and social cohesion, which might contribute to make economic growth sustainable in the long run. It is also unclear which types of networks, which have a positive effect on economic development. Sabatini (2008) finds that it is only “linking” social capital that has a positive effect on human development and that “bonding” and “bridging” social capital has a negative effect on human development. Durlauf & Fafchamps (2006: 1642) have captured some of the dissatisfaction with such a concept saying: “While conceptual vagueness may have promoted the use of the term [social capital] among the social sciences, it also has been an impediment to both theoretical and empirical research of phenomena in which social capital may play a role.”

One possible solution is to keep our utilitarist perspective on social capital in mind. Hence, social capital contributes to regional economic development by reducing frictions, which generates increasing returns in the regional economic system. Many authors view social capital as both a generator and a function of trust (Granovetter, 1985; Fukuyama, 1995). Even if trust is as difficult as social capital to define and to measure, it is viewed as a strategic component for non-routine transactions to take place with a minimum of frictions. The capability of some regions, e.g. some so called industrial districts, to maintain global competitiveness through networks of small and medium-sized firms, rather than being dependent upon one or several large firms has in the literature in many cases been explained by high levels of trust among regional firms and organizations in the region, i.e. a high level of social capital (Westlund, 2009). Hence, social capital is increasingly being viewed as a fundamental factor for regional competitiveness and thus for regional economic development, with evidences mainly based on case study analyses or deductive reasoning. Existing studies indicate that regions with high levels of trust, and thus social capital tend to be more competitive due to a better ability to adjust to the rapidly changing conditions that characterizes the current era of global technology-led economic development (Stimson, Stough & Roberts, 2006).

In the following table (table. 1), we proceed to an appreciation of the utility of social capital by 1- adopting Malecki’s definition (1998: 11). His definition clearly specifies social capital as having the capacity to reduce frictions in market transactions. In regional economic systems, it reduces regional and local monitoring and transaction costs, by nurturing trust and shared values. 2- We inductively derive choices attached to it and its related costs:

Social Capital (Malecki, 1998)	Choices	Cost
The creation of a system of general reciprocity	Interaction (Sacks, Schegloff & Jefferson, 1974), Intersubjectivity (Schütz, 1962), experience, shared value, trust (Sako, 1992), civil participation	Social cost or Behavioural sunk and prospective costs.
Establishment of information channel, providing sorted and evaluated information and knowledge	Sorted and evaluated information and knowledge	Search and information costs
Simplification of market transaction, norms of exchanges and by passing formal rules and procedures	Popular relations of solidarity and trust (Roberts, 1994: 8; Portes, 1994; Bradach & Eccles, 1991); truck, barter, exchange (Smith, 1776).	Information cost Bargaining cost and trustworthiness

Table 1: Social Capital and Induced Choices and Costs.

The role of social capital in market transaction has its origins in actor’s social capabilities. Hence, Malecki’s first dimension is some kind of social involvement with each other, implying a purpose and assuming the use of essential means of sociability. In economics, a social cost is an externality experienced by other people (pollution, congestion) than the person operating a device. In the valuation perspective, the elements of social capital are sunk cost in a behavioural sense[4]. If somebody invests in social interaction with other actors, it assumes a sunk cost to create social capital. This subjective cost will influence his decisions notably in avoiding loss of relations in this network and in weighting social gain and loss in alternative scenarios.

Malecki's second dimension, the establishment of information channels, is creating a social added value[5] for the people benefiting from social capital. The cost involved is a kind of transaction cost, i.e. the search and information cost attached to the access to those information channels. The valuation perspective underlines the involvement with significant others bringing the benefice of sorted information (Hertz, 1992) and evaluated knowledge (Sako, 1992). Contrary to marketing which proposed perceived value as the effect of comparing between the commodity price and the consumer valuation, the social added value is a direct effect of the social capital, i.e. the ability to derive social advantages from the sharing of values, custom, practices with others.

Malecki's third dimension is a rule of economic exchange that is present in social transaction such as gift, truck, barter. The gift exchange can be some kind of economic contracts avoiding the economic transaction guided by self-interest, in such a way that the exchange is fostered through the processes of reciprocity and redistribu-

[4] In economics, a sunk cost is a retrospective (past) cost that has already been incurred and cannot be recovered. Contrary to its meaning for commodities, its meaning as a valuation would include also prospective costs, i.e. future costs that may be incurred or changed if an action is taken. The economic definition of retrospective and prospective costs includes either fixed or variable costs. In its behavioural sense, costs are valuations highly dependent on the type of social capital available and used.

[5] In economics, the added value is defined by the difference between the final selling price of a particular product and the direct and indirect input used in making that product.

tion (Mauss, 1970). Direct barter does not requires payment in money, does not require knowing the credit worthiness of the partner in transaction (Humphrey, 1985). The truck system may increase the social cost between the people exchanging since the value of a service or a good is exchanged against labour. In this sense, it differs from open barter or payment in kind. The truck system may take place or take advantage from a closed economic system. It may be adapted to a system of arrangement and mutual duties, which sometimes leaves little or no opportunity to choose other arrangements. In the same time, those arrangements may also constitute the social capital between people. Coleman (1990) said that ‘closure creates trustworthiness in a social structure’. A person leaving this social arrangement will have to face a social cost, a breach of implicit contract or trust. Someone becoming indebted to his or her partners in a network may not be able to leave the system. Trustworthiness is done to facilitate others actions (Arrow, 1974 [6]; Williamsson, 1993). The breach of trustworthiness will include a high social cost (defection is a kind of negative externality imposed on others). From a valuation perspective, trust assumed between actors as their common social capital is the cost of reaching a mutual agreement. This is the bargaining cost, whereby partners in a transaction come to an acceptable agreement (Dahlman, 1979). Sako (1992: 37-47) went further to explain the content of such trust: 1- contractual trust (the expectation that promises are kept), 2- competence trust (technical task will be carried correctly without need of inspection) and 3- goodwill trust (mutual expectations of open commitment like doing more than formally expected by sharing information).

[6] Arrow (1974) said, “Trust … saves a lot of trouble to have a fair degree of reliance on other people’s work”. In addition, Williamson (1993) said, “Trust refers to the probability that an individual with whom a relation of cooperation has been established with not act against us.”

The system of social capital would seems to promote an economically valid system of preference, the "grease" that make the relation to resources easier to handle, namely behavioural sunk cost, social added value and information cost and trustworthiness. Notice an important characteristics of cost implied in social capital are valuation that emerged within the capabilities of social interaction, they do not presume other capabilities than the inter-subjectivity of the world known-in-common[7] (Schütz, 1962). Those features of valuation of social action are costless in an economic sense, since they do not require any other capabilities than common- sense social capabilities.

The implications of cost valuation discussion for regional policy is that preserving and developing social capital becomes one major instrument to further regional economic development. Naturally, development of social capital is in most cases not a sufficient policy to generate regional economic development. Researchers have stressed, for example, the possibility to use the inter-relation between social, environmental and cultural capital to support regional economic development (Krugman, 1995; Skott & Auerbach, 1995; Martin & Sunley, 1996; Galster, 1998). Such an approach implies that sustainable regional economic development should focus on actions that stimulate positive cumulative causation processes between the three types of capital that can generate increasing returns.

Social capital has developed into one of the most critical factors for regional economic development policies in the modern global society. It is strongly related to the degree of trust between firms, organizations and individuals in a region making it

[7] It includes idealization in everyday life which are 1- the reciprocity of perspectives (the congruency of system of relevance) and 2- the interchangeability of standpoints (the ability to adopt others perspectives).

possible for them to reduce transaction costs both in market exchanges and in regional development projects. Regions with high social capital and trust seems to be able to initiate and execute regional economic development strategies and projects more easily and more effectively than regions with low social capital and low trust. Researchers have in recent decades tried to answer the question how regions can enhance their social capital to stimulate regional economic development. Social capital has been linked to participation in social organizations (Putnam, 1993) and to civic education, which supports the development of norms of trust and cooperation (McGinn, 1996).

5- Governance as the Alignment of Costs of Public and Private Choices

The question of governance of economic, social and political systems in the micro level has engaged researchers for centuries. In recent decades, one notices the general contributions by Williamson (1979) and Rhodes (1996 &1997) as well as the contributions focusing specifically on the governance of regional economic development by Luger & Goldstein (1991), Amin (1999) and McLeod & Goodwin (1999) and local governance (Ostrom, 1990; 1998; 2005). “Governance” should be understood in this connection as the act or manner or process of governing and the office or function of governing (Stimson, Stough & Roberts, 2006).

The issue of governance has increased in importance in recent decades, since economies at all levels – global, national, and regional – have rapidly increased in complexity. Firms not only depend on their own capacity to cope with this increasing complexity, but also need to draw on other firms, in particular, knowledge-intensive business service firms, and on public sector organizations as providers of inputs and services and as sources of learning and innovation (Helmsing, 2001). This implies that problems of co-ordination have multiplied in both the private and the public sector, while the uncertainties about the outcomes have increased. In order to deal with or at least reduce these and associated problems (such as information asymmetries, information paradoxes, moral hazard, free riding, lack of trust, and opportunism) governance has become a critical issue.

Governance is an issue for all regions but it is in particular critical for those regions where co-ordination (and co-operation) is weakly developed and where more or less unregulated competition prevails (Scott & Storper, 1992). Especially the last group of regions face many problems and predicaments that compromise and threatens long-run viability and development. Such regions are all the more vulnerable because, in a global world with contested markets, their firms are faced with competitors based in regions that provide more efficient governance supporting co-ordination and co-operation within the region. In other words, the long-run economic development in a region depends as much on its firms as on the regional governance system and the interaction between the firms and the governance system to secure long-term co-ordination and co-operation. Governance systems that are better at handling these problems have a greater capacity for continuous adaptation and this allows them to maintain a long-term development trajectory. As economies are becoming more complex, new forms of governance needs to be developed and implemented to secure co-ordination and cooperation both between firms and between firms and public sector organizations.

Decisions by governments, firms and individuals concerning the collective and/or private use of resources and assets are in market economies governed by institutions, i.e. commonly held principles, rules, values, etc., which define property rights and the level of transaction costs, and hence the efficiency with which different national and regional economies work. These institutions are over time slowly shaped, reinforced or changed by political decisions, custom, past experience and/or events elsewhere. The institutional framework of a society is critical since it determines its incentive structure (North, 1990, 4): “Institutions, together with the constraints of economic theory, determine the opportunities of a society.”

The economic performance of a region over time is in a basic way influenced by existing institutions and the way they evolve over time, i.e., how they decrease uncertainty, how they allow firms and individuals to have access to information, and how they decrease the market and policy imperfections that increase transaction costs. Clingermayer & Feiock (2001, 3) remark that institutions “can provide the stability in collective choices that otherwise would be chaotic.”

The nature of the institutional framework and the degree to which it imposes constraints or facilitates actions to identify, develop and explore opportunities can be seen as conditioning the innovation, entrepreneurship and investment processes that are essential for regional economic development. Rodríguez Pose (1998) and Alfonso Gil (1997 and 1999) point out toward new institutional theory for having strategic significance in the development processes in so far as those institutions are able to achieve economies of functioning. To address those economies of functioning, we use Vasquez-Barquero (2002: 11-2) definition of institutional behaviour and adopt a valuation perspective on the transaction costs implied in their functioning:

Institutions (Vasquez-Barquero, 2002)	Choices	Costs
1- Reduce transformation and production cost	Supplier’s specialization in industrial districts;	Transaction cost
	Access to technological improvements (innovation and product novelty), access to global markets;	Cost of Information asymmetry
	Direct investments in regions and cities for decentralized product function (Costamagna, 1999)	Prospective cost
2- Increase trust among economic and social actors	Improvement of institutional environment (access time to public services, simplification of procedures, stability of laws and regulations, low tax, fluid labour market);	Intermediary social cost
	Local network to encourage firm’s competitiveness;	Agency cost
	Operational mechanisms for local policies.	
3- Improve entrepreneurial capacity	Local funding for small and micro firms;	Agency cost
	Knowledge of other actors in the local production system (Pecqueur & Silva, 1992).	Behavioural sunk cost
	International market access.	
		Information asymmetry cost & Organization design cost
4- Increase learning and relations mechanisms	New technology infrastructure (Hammer & Champy 1993), rapid knowledge transfer (Karlsson & Andersson, 2009);	Transaction cost Organization design cost
	Flat hierarchy;	Information asymmetry cost
	Fluid access to learning, interaction in cities (Ellison & Glaeser, 1997);	
	Relations and exchanges within the district (Håkansson & Johansson, 1993).	Transaction cost
	Facilitating access to goods and services information (Malecki and Tootle, 1996);	Sunk cost, intermediary social cost, agency cost
5- Reinforce net-	Local initiative and self-organization develop-	Cost of self-enforcement;

works and cooperation among actors	ment (Ostrom, 2005);	
	Polycentric services (Ostrom, Tiebout, Warren, 1961);	Governance cost
	Territorial solidarity (Pecqueur & Silva 1992);	Bargaining cost and unintended consequences cost.

Table 2: Regional Institution Behaviour and its induced Choices and Costs.

In the strong assumption, institutions working for the betterment of regional economics are working out four distinctive choices of development implying differential costs. We review those costs below.

First, key institutions of economic development comprise firms and their agencies, which are essentially dealing with (a) transaction cost, implied in the coordination of suppliers in industrial districts. In this case, industries are mainly dealing with policies cost which are the cost generated in making sure that other parties conform to the terms of agreement or contracts (Dahlman, 1979). (b) The second type of transactions performed by those institutions is technology access implying the cost of searching and information (which is a sub-set of transaction cost). Firms bear the cost of finding out the most efficient good or services on the market to serve innovation or market expansion. (c) The third type of transaction, firms are engaging in, is the investment cost for delocalizing production functions in regions or cities. It is a prospective cost since it involves an investment decision generally made in relation to an incentive to do so (tax reduction, access to a labour pool, transportation and/or distribution facilities, etc.)

Second, public and private institutions cooperate for regional economic development. They built trust relationships among economic and social actors. For that matter, institutional environment can be improved regarding access to public services, simplification of procedures, stability of law and regulations, lower taxation and flexibility of the labour market. Those choices are essentially intermediary social cost. In economics, intermediary costs are incurred when goods are moved from the supplier to the customers. For example, intermediary costs are expenses of handling cost when shipping, warehousing when transporting or insuring when goods are in transit. We define similarly intermediary social cost when extra bureaucratic procedures are engaged in accessing public services, administrative retention of information renders procedures unduly complex, legal inflation answers for effective and stable regulation, employers-employees contracts are mediated through third parties regulatory bodies etc.

Another type of cooperation between private and public organization is formed to allow local networks to encourage firm's competitiveness, or local policies circuits to improve local economic and social mechanisms (social club, chamber of commerce, etc.). This type of cooperation generally involves agency cost. Agency costs derive from the principal-agent theory in economics (Fama & Jensen, 1983). The issue of agency cost concerns an organization, a person or a group of persons (a principal). The cost arises when the principal chooses or hires an agent to act on its behalf. The agent, besides serving the principal interest, is also having interest of its own. The agent is in possession of local information and networks creating a dissymmetry of information within the relationship. Hence, the agency cost holds the potential that agents are not always acting in the principal's best interest.

Third, the institution for regional economic development works at improving entrepreneurial capacity. For that matter, local policies may invite the creation of local funds and public incentives to create micro firms. An agency cost may be kept to the minimum if administrative procedures are easy to implement for the actors benefiting from those public services. Expansion of networks capabilities of existing organization and firms to other actors playing a role in the local production system is implying a behavioural sunk cost. It is so since the awareness of the firm or organization to others producers implies some social investment costs that have no certainty of return either in market or social terms. Entrepreneurial capacity can be helped by local agencies of information toward international market. It implies some agency cost (inter-organization relation) related to the obtaining of information (in also implies another type of transaction cost i.e. the information asymmetry cost). Cost of development toward international market demands an increase in managerial cost, notably in organizational design cost (develop more extensively below).

Four, the institutions of regional economic development are creating an environment that is conducive for further growth. This is mainly done through intangible assets in learning and relation mechanisms. Increased learning is strongly enhanced by new technology infrastructure and forms of rapid knowledge transfer. Those forms of enhancement of learning are structured by transaction costs, which correspond to Williamson's characteristics (1979; 1981) whereby relative efficiency of learning and its support mechanism depends on the frequency, specificity, uncertainty, limited rationality and opportunistic behaviours of actors involved in those transactions. Other important social mechanism such as flat hierarchies facilitates intergenerational and intercultural communication to take place. Those cultural aspects carry with them organizational design costs. Organizational design costs are mainly managerial characteristics of organization. They consist in choices on optimal business units' structures, the role of corporate or bureaucratic head office, shared services and other measurement of performance of managerial processes. Other access to learning, done through the density of interactions taking place in agglomeration involves transaction cost mainly centred upon search and information costs. The facilitating of access to information on goods or services implies sunk cost through information technology, some intermediary social cost through specialized services, or some agency costs through legally exclusive agencies.

Five, the regional economic development is working toward the emergence of new networks facilitating the cooperation among actors. This is clearly directed toward local initiative in line with self-organization of development. Those initiatives imply self-enforcement costs, which are a sub-category of transaction cost. They assume that some agencies, more likely dedicated individuals, are taking the cost of making sure that other parties stick to the terms of agreement. It may involve different degrees of policing and enforcement, which the most formal is the threat of legal action in the court of law. Ostrom, Tiebout and Warren's concept of polycentric services (1961), has captured other forms of cooperation between existing agencies. Those services refer to metropolitan government with multiple political jurisdictions. They may engage in competitive, contractual and cooperative undertakings functioning in a coherent manner through consistent and predictable organizational behaviour. Those organisms carry a government cost (McGinnis, 2005; McGinnis & Ostrom, 2012) whereby institutional diversity is maintained through steering organizationally interrelated challenges (posed by globalization, their interaction with different social communities). Another feature of regional economic development is the presence of territorial solidarities, which bring both bargaining cost and the cost of unintended consequences. The bargaining cost is a sub-set of transaction cost, which is the cost for reaching an acceptable agreement with the other party based on an appropriate contract. This kind of close cooperation between actors clearly implies social capital. However, such capital often induces a cost of unintended consequences such as social conservatism. Strong solidarities between people may also bring networks to behave in autarkic ways relying most exclusively on using safe and well-developed channels of transaction at the exclusion of others path created by newcomers. In a time where exchanges are increased due to globalization, integration of diversified channels of information is a necessity.

It is rather urgent to appreciate that the current era of globalization creates considerable challenges for governance of regional economic development including changes in institutional frameworks. We are experiencing the emergence of societies without clear borders with low frictions for the movement of information, knowledge, people, goods, services, production and money. Governments and firms in today's world must be able to handle increasingly complex matters. Our review of costs involved in the economic development of regions gives a clear indication of complexity facing policies makers' choices. It shows that stronger demands from different groups of stakeholders are demanding greater transparency, standardisation and accountability in government organizations. Furthermore, the role of governments at different levels is changing.

Governments in the global era of deregulation have less influence and control over regional economic development including the investment and location decisions by firms, of which an increasing number are multinational. The Buchanian approach of valuation of regional choices shows, more clearly, to governments at different levels their need to learn how to facilitate and manage regional economic development processes. The challenge they are facing is the tuning-up of governance with the global forces that shape the patterns of investment and location of firms and households. Many governments have difficulties in accepting this situation. There are also often in conflicts between governments agencies at different levels. It is not uncommon that regional governments demand greater empowerment and try to convince national governments (and supra-national governments, such as the European Union) to delegate decision power and resources as well as to execute national policies in a consultative manner. At the same time, there is a growing tendency for new partnerships between national, regional and local governments, business organizations, trade unions, NGOs, etc. to emerge with a mandate to execute many of the functions and responsibilities traditionally undertaken by government agencies.

The current globalization trends generate many paradoxes for national governments. They need on the one hand to develop national public policy and national public investments in public services, R&D and infrastructures to stimulate innovation and entrepreneurship and to facilitate the growth of firms in a global context. However, on the other hand they need to empower regions and partnerships to mobilize resources to provide and manage those public services, R&D activities and infrastructures that are critical to support regional innovation and regional economic development. Thus, governance processes and procedures are transformed generating substantial challenges for governments to design new governance institutions.

The ongoing changes in the global economy has led to a relative decline in the role of the national governments and an increasing focus on regions as the real centres for innovation, entrepreneurship and regional economic development. Regions – and in particular the large metropolitan regions – are dominating R&D, innovation, entrepreneurship and investments and have become the major creators of value added and employment growth. This implies that the functional metropolitan region to an increasing extent must become the geographic unit of both analysis and governance of regional policies, since they are the regions where most of the regional economic development is generated (Karlsson et al. 2009; OECD 2011). However, often boundaries of the functional metropolitan region do not coincide with political and administrative boundaries generating substantial governance problems, such as free riding problems and lack of coordination in the provision of public services and infrastructures.

Many firms do not confine their economic activities to a specific region, not even in cases when they are integrated in strong industrial clusters. Instead, their economic activities in terms of production, exports, imports, etc. are spread over many regions at home as well as abroad. Globalization, technological change and restructuring of regional and national economies have induced many firms to outsource activities to become more flexible and to be able to take advantage of economies of scale among suppliers. The globalization process and the destruction of the Soviet bloc has led to the integration of many developing economies in the world economy, which have open up possibilities for firms in the developed countries to extend the outsourcing to developing economies, i.e. to offshore activities. This has led to the development of new business models, where not only manufacturing firms but also service, wholesale and retail firms take advantage of the new options and source inputs, products and services where they find the lowest production costs for a given quality level. What has emerged from this process is growing global networks of producers, suppliers, distributors and customers.

However, in the current knowledge-based, information-intensive era, regional economic development will not only be influenced by exogenous factors but increasingly by endogenous factors. We are globally moving into an age where firms and governments need to learn to anticipate and manage in a flexible manner emerging threats and opportunities and prevailing uncertainties rather than trying to determine or control future outcomes. Future economic outcomes will increasingly be managed through alliances and partnerships that combine ideas, values, information and knowledge rather than through big plans and interventionist policies. For regional policymakers this poses a great challenge to established systems of governance.

6- Conclusion: Remarks for Regional Policies

The global processes and their local implications discussed above have substantially changed the way firms and industries develop in a region. For regional politics, subjective valuation of international factors is critical. Our propositions here are two-fold: 1- Buchanan's economics of subjective value (Buchanan, 1969: 60) is proposing an alternative explication in terms of choices and costs, which complement the explanation of market interaction. 2- The detailed identification of costs provided in this paper maps out a diversity of choices showing clearly to regional policy makers that making short term choices necessarily implies long term combinations of costs. The implication of this socio-economic perspective is rather direct for policy makers about the implication of the choosing of their policies. Political choices even in selecting preferred alternatives rarely match the economic magnitudes of prices and costs equilibrium. To achieve a better result, it is necessary to consider economic sound decisions in line with the realisation of mutually reinforcing and consistent expectations. Our utility approach of costs, directly inspired by Coase and Buchanan, provides a comparative analysis of institutional choices. The implications of this type of analysis for policy makers are, in Coase's words (1960: 23) to:

> Start our analysis with a situation approximating that which actually exists, to examine the effects of a proposed policy change and to attempt to decide whether the new situation would be, in total, better or worse than the original one.

One of our contributions in this paper is showing the complementarity of social choices such as the investment in social capital to economic activities and governance function. It is also adding to our understanding of sociological (or subjective economics in Buchanan's parlance[8]) assessment of governance efficiency. One of the finding is that social capital is efficient precisely because it has a low cost for setting it up. Its basic requirement of its establishment comes from our common sense social skills of cooperation. This finding provides a sociological standard of evaluation regarding the efficiency of decisions costs taken in the context of regional economic development.

In the following table (table 3), we provides a policy scheme detailing those social costs along different types of decisions classified by low or high transaction costs. Low transaction costs are all choices that can be ran through direct one-to-one interaction channels between actors. High transaction costs include all other choices requiring the involvement of more than two interacting partners.

[8] In this paper, we use "subjective economics" or sociology interchangeably.

Regional Economic Development Choices	Actions with low of transaction costs	Actions with high transaction costs
1- Reduce transformation and production cost	Transaction cost Cost of information asymmetry	Prospective cost
2- Increase trust among economic and social actors		Intermediary social cost Agency cost
3- Improve entrepreneurship capacity	Information asymmetry cost Behaviour sunk cost	Agency cost Organization design cost
4- Increase learning and relations mechanisms	Information asymmetry cost Transaction cost Sunk cost	Agency cost Organization design cost Intermediary social cost
5- Reinforce networks and cooperation among actors	Cost of self-enforcement Bargaining costs	Government cost

Table 3: High and low, transaction costs for regional economic development choices.

Table 3 shows that 1- entrepreneurs' capacity can be improved essentially on their own mainly through direct transacting. Costly transactions are those implying financial prospective cost implying the involvement of unexpected third parties. 2- The increasing of trust among economic and social actors is harder to achieve since it implies higher transaction cost through intermediary steps (though governmental agencies procedures) or agency cost of new network organisations. 3- The improvement of entrepreneurship capacity implies direct cost that entrepreneurs can carry though building networks and finding information. Other link local funding implies higher transaction cost with intermediary agencies. Some demands higher private cost for implementing international offices across the globe. 4- The increasing of mechanisms of learning are costly both in low transaction costs, including information search, investment in relations and maintenance of networks but also in third parties transaction costs, including organisational setups in creating new organisms, intermediary programs and new way of coordinating governance with those new agencies. 5- The reinforcing of networks and cooperation among actors can be done most efficiently by self-organisation with low transaction cost. The most costly alternative is the cost of governance among polycentric organisations, demanding multi-transaction simultaneously.

This synthetic table also provides further information. If we look at the low transaction cost column only, one finds that governance agencies are self-generated, in the case of firms or communities. Alternatively, in the case of third part agencies, they allow the creation of new mechanism mostly supporting adjustments in changing environments in cooperation between actors of the civil society, learning and entrepreneurial start-ups. Governing representatives working essentially on those dimensions are political free riders. If we look at the high transaction cost column only, we see that new agencies set-ups, internal re-organisation, financial intervention and governance coordination put high demands on managerial competencies. Governing representatives are elected to contribute the most here. This is here, as Buchanan (1984 and Buchanan & Tullock, 1962) proposed that everyone can observe "governance failure" where the individual responsibility of policy makers is directly engaged[9].

[9] Buchanan is clear when he says (1984: 48): "As with economic theory, the analysis attempts to relate the behaviour of individual actors in the governmental sector, that is, the behaviour of individual actors in the government sectors, that is, the behaviour of persons in their various capacities as voters, as candidates for office, as elected representatives, as leaders or members of political parties, as bureaucrats (all of those are "public choices" roles) to the composite of outcome that we observe or might observe. Public choice theory attempts to offer an understanding and an explanation of a complex of institutional interactions that go on within the political sector.

Governments, which are not able to respond mainly to high transaction costs, risk to lose their position and to become unattractive for expanding industries and firms. Many firms in the global economy are characterized to a high degree by foot looseness, i.e. they are free to locate their activities to those regions that offer the right type of business climate. The conclusion for the governance of regional economic development is that regional economic development strategies and polices must be cognizant of the global context of the region and to develop regional actions in terms of provision of public services, R&D activities and infrastructures that facilitate integration with the global economy. The table 3, in gathering the costs of such institutional tools for each of the relevant dimensions of regional development, provides the synthetic overview of the areas of adaptation to continuous changes. This synthesis combines economic and sociologic implications, the building blocks of a required strategic architecture supporting a range of regional economic development possibilities. It is essentially based on the competitiveness of resources, infrastructure, governance processes and core competence (Rosenberg, 1994).

Regions need to have appropriate institutional arrangements to be able to design, fund, and govern a regional development strategy and to ensure the implementation of plans and actions (Blakely, 1994). Thus, the capacity[10] of regional policymakers to govern, i.e., to initiate, undertake and carry through plans and decisions for regional economic development is critically dependent upon the alignment of institutional choices to a complex set of generated socio-economic costs. This study contributed to make clear that the development of the institutional framework is a fundamental fac-

[10] I.e. the capability of taking high transaction cost decisions.

tor in creating the right foundation for the governance of policies to further regional economic development.

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