

CESIS Electronic Working Paper Series

Paper No. 406

**Regional Economic Development, Social Capital and
Governance: A Comparative Institutional Analysis France -
Sweden**

**Charlie Karlsson
Philippe Rouchy**

May, 2015

Regional Economic Development, Social Capital and Governance: A Comparative Institutional Analysis France - Sweden

Charlie Karlsson, CESIS, Jönköping International Business School and Blekinge Institute of Technology (charlie.karlsson@jibs.hj.se) & Philippe Rouchy, Blekinge Institute of Technology (philippe.rouchy@bth.se)

Abstract:

The purpose of this paper is to consider how social capital enhance or hamper regional economic development due to governance systems. To answer this question, we take a comparative institutional perspective between France and Sweden based on OECD regional outlook indicators. It comprises 1- a comparison of both countries regional and municipal governances; 2- a definition of social capital as a social utility function of region or localities, i.e. their “social atmosphere”. 3- A comparison of the participation rate in interest groups in both countries indicating a propensity to collaborate with institutions. The result of the paper shows a differential intensity of participation to interest groups between France and Sweden and an effect of local political institutions on countries’ “social atmosphere”. In conclusion, we show differential values between France and Sweden in terms of political ethics supporting the formation of social capital. We suggest policy implication to increase entrepreneurial solution in civil society.

Keywords: Comparative Institutional Analysis, Regional Development, Social Capital, Governance, Interest Groups, Public Choice, Cooperation.

JEL codes: P48, R11, R58, A14, B25, D7, O17

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. Our preliminary interrogation is to know to what extent social capital can influence the growth of a regional economy. To answer the question, we follow the definition of institutional economics given by North (1990: 3) as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social or economic.”

In this study, we propose a two-layer Russian puppet model of institution: one, which is the regional institutional layer (including region and commune) and the other, is the interest group layer (where we locate social capital). The question is to know how the regional institution affects the formation of social capital. At this stage of the inquiry, it will be unwise to assume a linear relation between them. Therefore, we use comparative institutional analysis between countries. The difference between France and Sweden “Russian puppets” will tell us to which extent relative social capital is affecting regional economic growth. The

comparative institutional analysis allows us to deal with a number of caveats: this study does not deal with the entrepreneur, the actor whom values and norms are clearly serving the supply side of the economy; but interrogate the “average citizen” in order to know to which extent his supply of social capital has a potential to enhance¹ economic growth. The institutional analysis allows us to perform a controlled theoretical investigation of social capital, as an economic object, not simply a variable of adjustment. Marshall defined the “industrial atmosphere” as capturing the idea that economist could describe an industrial district by the concentration of human capital in the industry. In the same way, we define the “social atmosphere” of a region by the concentration of social capital provided by its interest groups. Thus, we shift the evaluation of the investment cost in human capital from the linear growth input to the non-linear social utility input.

The paper is organised in three parts. The first one is presenting current research concern on the role of institutions in regional development. We specify the French and Swedish context of regional institutions distinguishing between the role of “centralised government” and “limited government”. The second part, is presenting social capital as an informal institution creating social value. One identifies social value, such as social innovation in the existence of interest groups in France and Sweden. In the third part, we compare percentage of participation of French and Swedish population to interest group. We explain the difference by the role of formal and informal institutions and draw conclusion on the way forward to increase in both countries individual sovereignty.

¹ We don't say “increase” since in this paper, no attempt is made to propose a proxy variable for measuring social capital.

2- Institutions and governance in regional development

Since the mid-1990, the issue of the role of institution in regional development has become pre-eminent. Institutions, until recently, have not been traditionally the core of the concerns in economic development. Notably, in Solow's (1956) theory of growth, achieving economic development is related to investments in physical capital. Certainly, Romer (1986) and Lucas (1988) endogenous theory of growth, emphasizing concerns, respectively, on innovation and education paved the way to consider further institutional externalities. During the 1990s, it appeared clearly that more investments in education and training as well as in the promotion of innovation and industrial activities did work in the major agglomeration economies but did not provide economic convergence at the country level, re-juvenescence of former industrial hubs or clear spill over between adjacent regions (Krugman, 1991). Since then, regional economics has been engaged in studying additional factors such as formal and informal institutions that may impinge on economic development (Rodriguez-Pose and Storper, 2006: 3; Rodriguez-Pose, 2013).

In recent years, the issue of regions and cities wealth is at the forefront of national government concerns for growth and economic performance. They favour regional policies of growth over redistributions to pursue national or regional competitiveness and balanced national development. This implies that territorial development instruments have become broader and seek to be relevant to the requirement of individual regions. It means that countries regional policies are taking clearly into account social disparities as well as the issues of the role of local government relations to their private and public actors. This interest in regional development from growth is accompanied with a trend toward decentralisation of power at the regional level. Regional strategic programs reflect this shift in general policies toward the support of endogenous development, business environment and the building of

regional capabilities. More recent regional development policies focus clearly on the sociability link between people's life conditions and the economic policies of development and growth. From a policy perspective, it is translated into the evaluation of government quality through the ability of public authorities to select and implement effective public investments. In this sense, the time of North's complaint (1990) about policy makers overlooking the role of institutions in the effective functioning of markets is gone. The question of the presence of efficient institutions is assumed nowadays to be a prerequisite of economic growth and development. North (1990: 107) declares institutions to be "the underlying determinant of the long-run performance of economies." Today institution quality and economic performance is accepted but controversy remains concerning the extent to which there is a causal link between them. Analysts, policy makers have brought to public attention the needs to reduce transaction costs at the regional level².

To go beyond the generalities about possible synergies between levels of governance in regions (Acemoglu et al. 2005; Buchanan, 1995; Olsen, 1990), we compare two forms of governance found in France and Sweden. The following table shows the French's "central government" and the Swedish's "limited government". We take two examples related to human capital, i.e. the education system and the industrial relations, i.e. the unions. Those examples help to show the responsibility levels the key organisations have in relationship to central governments and its impact on civil society.

² Although some degree of interaction is assumed between layers of governance, many of the suggestions to better governance resemble wishful thinking. Stimson (2006) provide a good illustration in the following quote: *Policies developed under institutional governance at the regional level should align and link closely with national development policies, while regional policy should inform and where expedient introduce best practices at the national level. It is important that the application of best practice at different governance levels provide for a learning process gained from the exchange of information, ideas and experiences across all levels of government and with the private and community sectors.*

Table 1: France and Sweden’s governance types

	<i>France</i>	<i>Sweden</i>
<i>Governance type</i>	Central government → Region → Department → Commune	Limited government → Region → Commune
<i>Institutional choice</i>	Allocation of resources from the top to all levels down. Competition for budgets allocation between region and department. Inter-communal services and commune compete in managing their own budget.	Government is limited to few sovereign activities. Region and commune are responsible for separated duties. Others concerns are left to other interest groups (Folkrörelser, 1860; Saltjöbaden 1938)
<i>Example 1: Human Capital: Education</i>	Commune (primary schools and kindergarten); department (middle schools); regions (high schools); state (universities).	Commune (all ground education); universities (state). Regions (extra-curriculum education: Folkshögskolan).
<i>Example 2: Industrial Relations: Unions</i>	Political unions received direct and indirect state subvention for their activities. They collect very little revenues through membership. 7.7 % of the working population is in a union. (OECD 2012)	Branch unions are independent organisation based on professional branch. Union provide unemployment benefit services to members. Unions collect revenues through membership. 65.5 % of the working population is in a union (OECD 2012).

Source: Statistics OCDE 2012, Trade Unions density, from OECD Statextract.

This table provide an overview of alternative governance. In this paper, we define governance as a management practice of governing cities, counties, school systems, regional governments etc. with the idea of efficiency, good value for the money and the use of alternative administrative mechanisms (Huilliet, 2004).

Linking economic performance to institutional structure has brought political scientists, geographers and sociologists to address the issue of the effectiveness of social institutions in relation to the provision of collective or public good (Streeck, 1991). The way to consider the role of institution in the policy decision process is to consider the cost of governance they imply. Recent research (Charron et al. 2012; Filipetti & Reggi, 2012) have developed new index to assess the quality of governance through perceived quality and variation of quality of service within a countries and through degree of centralisation. The ingredient of good governance are known and include trust arrangement between actors to reduce transaction

cost (Fukuyama, 2000; North, 2005; Vasquez-Barquero, 2002), the provision of collective goods, the fostering of transparency, the promotion of entrepreneurship, the flexibility of labour markets. Rodríguez Pose (1998) and Alfonso Gil (1997 and 1999) point out that new institutional theory emphasize the strategic significance of development processes in relation to the ability of institutions to perform economies of functioning. In the following section, we propose an overview of OECD regional governance indicators for both countries.

Table 2: Number of sub-national governments 2012-3

Country	Municipal level	Intermediate level	Regional or state level	Total
France	38 681	101	27	36 828
Sweden	290	-	21	311

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, table 3.3, p. 74.

The French communes represent 40 % of all communes in the EU (see table above). With 38 681 communes, French public life is dominated by its communal boards, i.e. political interest groups gathered under the French Mayors Association. French communes' budget depends mainly of state transfer of functioning and direct tax (tax on property, housing tax and professional taxes (craftsmen, trade and firms)). Municipalities deal with the local administration of water management, driving licenses. They also represent the state for registering birth, divorce and death and have police functions. Above the “commune”, one finds 101 “department” inherited from the revolution of 1789³. Those departments have similar competences than the region in different areas of social security, health services, planning and road building, as well as education, culture and economics. Above them, one finds 27 regions⁴. Since December 2014, a process is engaged to reduce the regions from 22 to 13. The administrative coverage of French regions is large since it embraces general

³ The revolution dissolved 40 historical regions in the new administrative layer called “departments”. De Tocqueville in his book *Old Régime and the French Revolution* explains that republic increased the political control over the country. Since then, the situation remained.

⁴ 22 are found in the geographical location of France and 5 are territories in other parts of the globe.

competence such as the management of high schools, the transport system, economic development and some tax systems.

Sweden counts 21 regions, which elected an assembly deliberating on the municipal affairs of the county. They cover public healthcare, public transport, education and culture matters as well as duties of police, employment, social insurance, and forestry services. Sweden counts 290 municipalities responsible for local services, such as schools, emergency services and town planning. With an average number of inhabitants per municipality of 32 935 (compare to 1735 in France), Sweden’s communal administration is able to achieve economies of scale in public spending.

Table 3: Average population and area of municipalities in France and Sweden, 2012

Country	Average number of inhabitants per municipality (0 to 250 000)	Average municipal area, km2 (0 to 7000)
France	1735	17
Sweden	32 935	1 552

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, figure 3.2, p. 75.

In France, the regional policies are governed by the state through their regional government. The conception of development follows a central planning model, which consists in specific contract between the state and regions (called *Contrats de Plan Etat-Région* (CPER)). In this perspective, the governance of the region is part of a larger system of political control of the population. In the Swedish system, the governance of the region is led by economic equilibrium consideration. The government mainly perform evaluations of economic performance and provide suggestions to the regional level.

Table 4: Regional Development Policy

Country	Regional development Ministry	Economics/Commerce/Development Ministry	Infrastructure/Spatial planning /Construction ministry	Public administration/interior/local government ministry	Other (central level agency, committee or regional development agency)
France					

Sweden					
--------	--	--	--	--	--

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, table 3.1, p. 68.

One of the implications of that information is that the nature of the institutional framework and the degree to which it imposes constraints or facilitates actions condition actors' abilities to identify, develop and explore opportunities⁵. To be more specific, some institutions are working under the pre-constitutional rules of economic exchange and some are working under the post-constitutionalist rules of administrative law (Acemoglu et al. 2001 call them *institutions of private property* and *extractive institutions*). Olsen (1990) distinguishes clearly between the primacy of politics and the primacy of economics. The primacy of politics defines the French system, whereby economy is seen as a sub-system of society. Therefore, politics is working in a conservative fashion by restraining economic rationality in attempting to replace the circuits of decisions of political interest groups. The primacy of economics means that local government activities are value in monetary terms and their legitimacy is based on their contribution to economic growth.

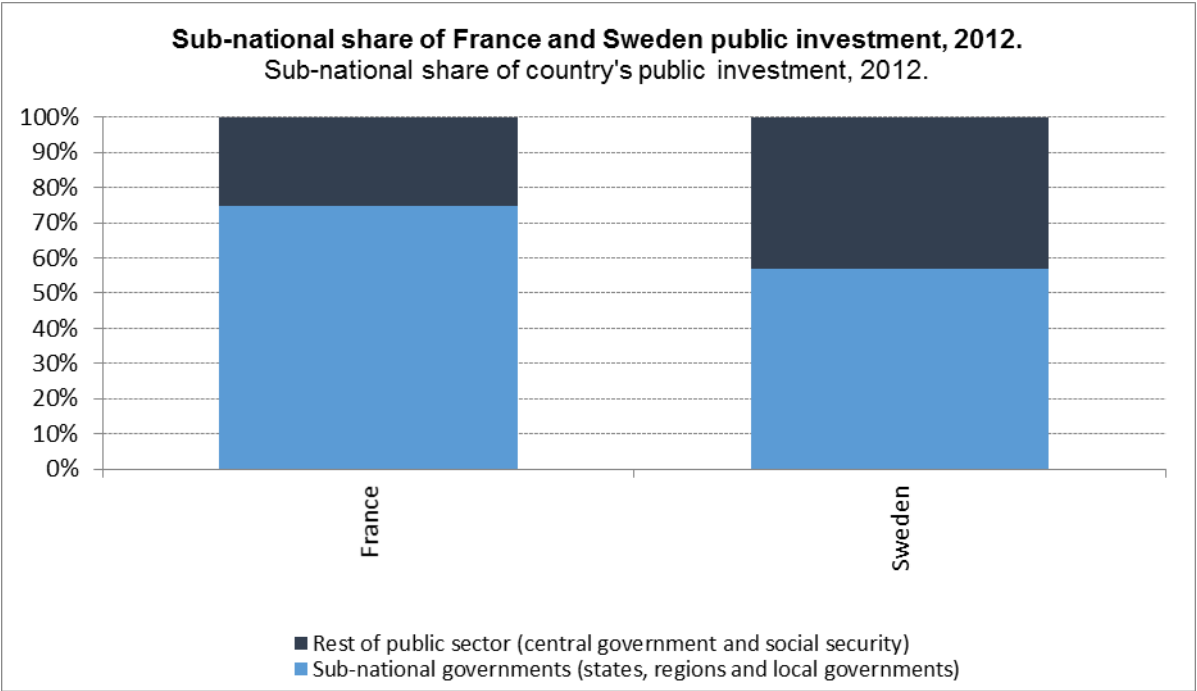
In the following figures, we present three indicators of governance: the share of country public investment (figure 1), the share of civil servant staff (figure 2) and the share of public procurement (figure 3), which illustrate the French's primacy of politics versus the Swedish primacy of economics. Public investment is playing a key role when dealing with welfare, education and environmental issues. In France, regional and local government⁶ proceed to

⁵ In this paper, we tentatively focus on two countries of the EU, France and Sweden. We know that regional differences are essential as Huyseune (2003: 211) has shown with the gap between Northern Italy displaying a cooperative and civic culture strongly rooted in vivid associative life and Southern Italy based on the exclusive defense of the interest of the nuclear family. Therefore, 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).

⁶ In the French system, those institutions include the municipalities, the department level, the regions, and the intercommunal institutions, different public authorities' joint-ventures (to promote tourism for example), and public institutions representing the French territories outside Europe.

75% of public investment against 57% in Sweden. French public investments depend on local election cycles. It is an essential political tool, which is used as variable adjustments when the public finance is under fiscal constraints. Between 2009-2012, public spending fluctuated from 56.68 Billion € (2009) to 52.03 Mds € (2010); 54 Mds € (2011) to 55.2 Mds € (2012). Investment is often justified in a Keynesian manner making the junction between political decision and economic effect through claims of jobs' creation and the development of activities notably in the building sector. Most of the investment done through the municipalities is made in the public transport systems, new technology and environmental matters.

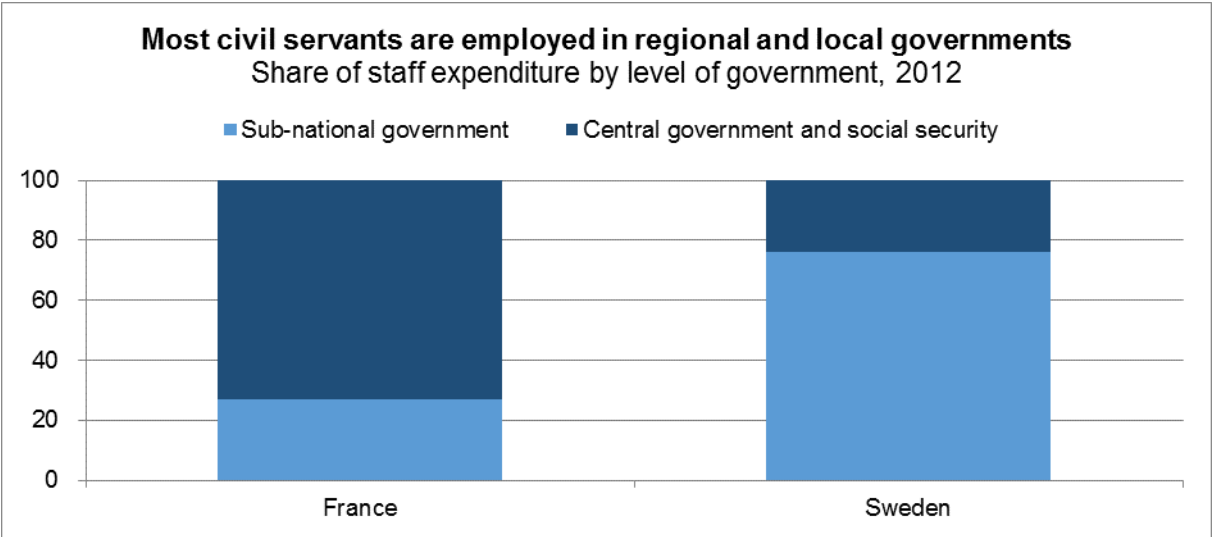
Figure 1: French and Swedish share of country public investment



Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, figure 4.1, p. 102. Based on OECD (2013), “Sub-national governments in OECD countries: Key data” (brochure), OECD, Paris, www.oecd.org/regional/regional-policy based on data from OECD (2014), *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>

In Sweden, the investment in 2009 across the 290 municipalities represents 414 billion SEK, almost half of the government total expenditure (858 billion SEK). In 2009, there are 169 inter-communal associations to deliver services representing 12 billion SEK. That inter-communal association are dealing with secondary schools and emergency services. On the regional side, investments represent 262 billion SEK. The Swedish budget of commune is essentially based on balancing the revenues and spending. Mayors in Sweden are constrained to balance budgets although they are tendencies toward election driven cyclical investments. The net savings of Swedish municipalities are under 3 billion SEK with a peak at minus 6.5 billion in 1997. From 2004 to 2007, revenues from taxes and contributions have a positive balance with expenses on consumption and investment. Overall, budget weakness in Swedish communes comes from social security. The main budget goes to education (42% of overall budget in 2009, SCB: 67). In the following section, we compare the expenditure of civil servants in regional government and their administrative affiliation.

Figure 2: Staff expenditure in regional and local governments



Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, figure 4.5, p. 117. Based on OECD calculations based on OECD (2014), *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>

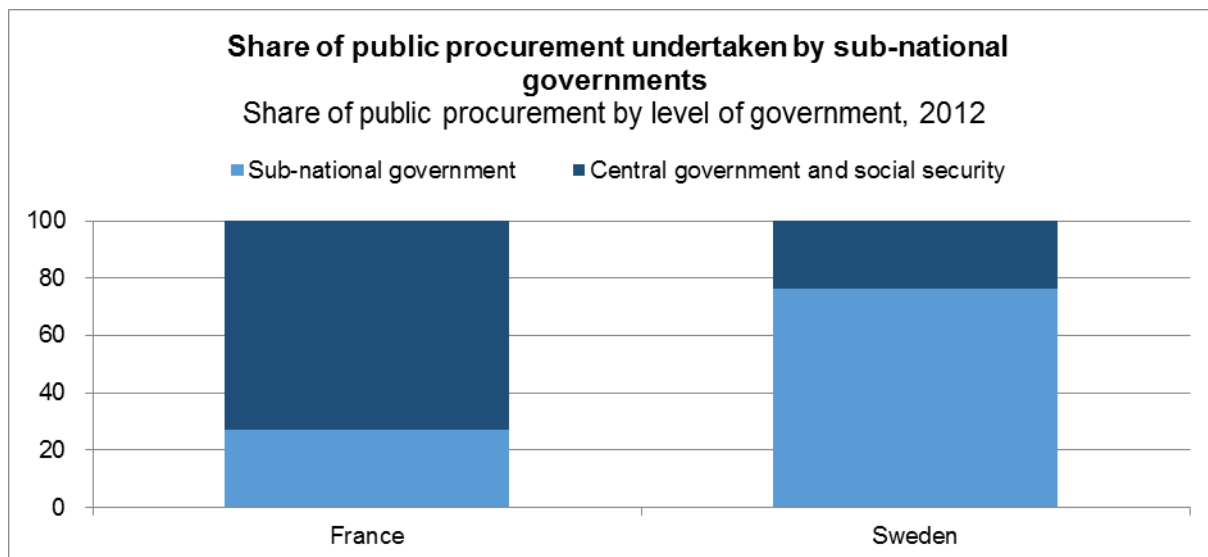
This graph is confirming the essentially different logic between France and Sweden in the governance of their regional and local affairs. In 2012, the share of staff expenditure at the sub national government between France and Sweden is respectively of 27 % and 76.2 %; at the central government (including social security), it is 73 % and 23.8 %. We can relate the use of staff expenditure to government expenditure to show that France's government has remote control governance whereby Sweden use proximity to manage public affairs. In 2009, the distribution of general government expenditure by level of government is successively for France, 30% of the central government, 25 % of the local government, and 45 % of social security; for Sweden, it is 45 % of the central government, 45% of the local government and 10% of social security. Those numbers shows that Swedish central governance is more present than the French one and in an equal relation with the local government. In the French system, the central government is less present, but in a dominating position toward local governance with an exceeding role for social security.

We have to make a remark on the role of social security in the French overall governance since it indicates how the state conceives the autonomy of the average citizen in France. Again, the citizen is an adjunct to the political machinery of the French state, not an individual endow with entrepreneurial capacities. The French centralised state is working with a social security organisation counting 400 offices and 185 000 employees on the government payroll. It is notoriously in deficit since the 60s having an organisation providing a redistributive service. From the governance perspective, its political role is essential but one can rightly question the good management practices of its economic imbalance of redistribution of social services. 87% of the professional tax and 13 % of other type of tax are redistributed through different organisms to different categories of professions. Social security represents 1.5 the state budget, which makes this social service an essential instrument of the

government propaganda. The state patronizes its citizen through its social security servicing. In 2013, it redistributes 465 billion Euros on the 650 billion budget for social protection. The employees of those organisms are not essentially managed at sub-national levels. They feel little implication to answer the citizen local realities. In appealing to the national rules governing their administration, they deliver a confusing message to the beneficiaries. The control of local or regional governance on the balance of the budget and its distribution principle is null.

The Swedish system is clearly working on the opposite premises since the bulk of Swedish public administration is found at local level. Local authorities – municipalities and county councils meet the need of the population for social services or infrastructure. In the economy of scale logic, the county councils deals with the management of health and medical services since it cover a larger population base than most municipalities. In France, the presence of a large social security administration is unbalancing the ability to offer local solution and putting the issue of social assistance at the centre of the policy intervention. The local initiatives have a limited impact and the central political infrastructure regard by them as a threat to their grip on the French civil society. Figure 3 below shows a clear imbalance of governance between France and Sweden if one considers the abilities of sub-national government to engage in public investment process through public procurement procedures.

Figure 3: The share of public procurement by sub-national governments



Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, figure 4.6, p. 121. Based on OECD calculations based on OECD (2014), *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>

Clearly, the French government is giving little responsibility to the local governance level to engage into public investments. Around 35.3 % of public investment is done by sub national governments in France (64.7% is provided by the central government), largely below the 50% average in the OECD and quite the opposite to the Swedish governing principles operative in local authorities. Swedish local authorities are managing 69.6 % of procurement in education, health and medical care. The central government is providing procurement for the 30.4 % remaining. Local administration are very responsive to international legislation such as European new guidelines but also incorporate national legislation on key issues on the environmental, food policy areas, health services. The local authorities have a real authority in supervising their activities, public procurement and regional development. Since public sector allows competition, the public authorities have learned to purchase goods and services through competitive tendering. In 2005, the Swedish public transport sector provides 95 % of its services through competitive tendering (only 7% in 1998). Alexanderson (2010) estimated that all public transport is going through a competitive tendering system and a generalization of public procurement in other policy areas. Procurement in France, notably in transport

system, is kept close to the state, i.e. the ministries and their networks. It means that there is collusion of interest between the state and the French firms procuring transport system, urban planning etc.⁷.

The issue of procurement is a good example of institutional bottleneck and the presence of perverse incentives, which is done through the political dominance of rent-seeking groups. The state himself is maintaining a strong hold on the public finance even for matter applied at the local level. In such approach of public procurement, we are in presence of a clientele system where the ministries and the national groups of interests pursue their common interest at cost levels, which are at the expense of the public. In this sense, the institutional framework of a society is critical in determining its incentive structure (North, 1990, 4): “Institutions, together with the constraints of economic theory, determine the opportunities of a society.” The institutional set up, the coordination between the administrative infrastructure and the individuals affect the coordination concerning the collective and/or private use of resources and assets. The differential of efficiency between France and Sweden’s treatment of regional matters reflects the treatment of property rights and transaction costs. In the following section, we present different reform decisions taken at the regional level showing an interventionist and cooperative style of management in regional affairs. The following three tables of reforms cover the municipal and metropolitan reforms, the metropolitan governance reform to finish with general remarks on the metropolitan governance models in both countries.

In the following table 5, we will concentrate on France last reform in 2010. This reform aimed at rationalising the different layers of administrations from the regional level to the commune

⁷ An example amongst many of this strategy is the quasi monopole of the Vinci construction group in the equipment of all French cities regarding the construction and exploitation of underground parking infrastructures.

level with the objective of cost control and modernizing transaction between the administration and the citizen. The general objective was also to question the territorial distinction between commune and department inherited from the revolution to simplify it by a larger communal area (called inter-communal level) the redefinition of metropolitan areas and the region. The French parliament and the second chamber (the senate) and the local politicians have deconstructed most of the proposition keeping the inter-communal proposition intact but without reshaping the communal level. They have redefined the relationship between the department and the region (areas of industrial activities and promotion of the region’s activities to foreign stakeholders) whereby those entities will be able to decide attributions contractually. They also plan to consider the new metropolitan areas (dealing with school transport systems and street networks). As a result, the former communes and department did not disappear, but congested by another administrative level (the inter-communal level). It increases management cost, lowers transparency and confuses citizen on the quality of services.

Table 5: Municipal and metropolitan reforms

Country	Municipal Mergers		Inter-municipal cooperation	Metropolitan governance	Comments
	One-Shot	Progressive			
France	1971 and 2010		X	New metropolitan status (2013)	Failure of the 1971 merger policy (Marcelin law) as well as of the 2010 territorial reform creating the status of “new municipality”. Law December 2013: new metropolitan status for 14 metropolitan areas. Act III of decentralisation (2014-5) could encourage further municipal mergers.
Sweden	1952	1962-86	-		Municipal one-shot reform in 1952 (from 2 414 to 949), then progressive reform from 1962-86.

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, annex 3. A2 table 3.A 2.1, p. 95-96. From various sources compiled by OECD, Dexia (2008), Sub-national governments in the European Unions: Organisations, Responsibilities and Finance, Dexia Editions, Paris, and Dexia Council of European Municipalities and Regions (CEMR) and I. Chatry (2012), Sub-National Public Finance in the European Union, Dexia Crédit Local.

In Sweden, reforms concerning the municipalities have been progressive. Since 1986 to now, a number of deregulation reforms of communal governance have been achieved. It has been

done through the adaptation over time of management by objectives whereby the parliament provides new policies carried by national board to the local level in the form of “good practices”. Those good practices are carried through committees with specialised tasks (education, environment and health, protection, social and building committees.) In 1992, the parliament decided to increase the number of independent schools, the board of education provided grants to school themselves (not through the commune administration.) and order municipalities to support economically the new schools. From those experiences, central government make adjustments by deregulating and re-regulating. One important point in the relation between central government and municipalities in Sweden is that local politicians take an active part in drafting proposal, decision-making, and implementation. Therefore, salaried officials in a central administration do not carry those tasks. In this way, there is an effective depolitization of the politician role reinforcing administrative autonomy and redefining control and responsibilities between central and local government. As a result, in the last 35 years, industrial policies, which were a national issue, became gradually a growing municipal concern notably in supporting local industry.

It is a well-known fact of geographical economics that the proximity of large urban centres matters for regional growth. One evaluation of the prosperity and well-being of a population can also be considered through the population distribution along the rural-urban continuum. In 2014, France had 40.4 % of its population in metropolitan areas (+ ½ M inhabitants) for 37.4 % for Sweden. 25 % of the French population is found in small and medium size functional urban areas (50 000 to ½ M inhabitants) against 15.9 % in Sweden. 34.7 % of French and 46.7 % of Swedish inhabitants are living in areas outside functional urban regions. The urban factor is clearly questioning issues of governance for each nation. The table 6 below summarise the policies adopted by the two countries:

Table 6: Metropolitan governance models

Country	OECD defined metro areas	Overview
France	15	Compared to many other OECD countries, France has an institutionalised and relatively uniform approach to metropolitan area governance (la communauté urbaine) although Paris is an exception. Reforms to reinforce metropolitan governance around largest cities are in progress.
Sweden	3	In all three metropolitan areas (Stockholm, Gothenburg and Malmö), voluntary associations of local governments exist. For Stockholm and Malmö, the respective counties (Län) correspond to the extent of the metropolitan areas and assume some of the functions of dedicated metropolitan area governance bodies.

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, table 3.5, p. 83. From Ahrend, R. and A. Schumann (2014), “Approaches to metropolitan area governance: A country overview”, *OECD Regional Development Working Papers*, No. 2014/03, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jz5j1q7s128-en>

The issue of effectiveness remains, since cities are clearly the growth drivers of the nation. Overall, metropolitan areas (+ ½ M inhabitants) represent 74 % of the French GDP and 49 % of the Swedish GDP (OECD, 2013). Paris represents 47 % of the France GDP, and Stockholm 35 % of Sweden GDP, which clearly indicates that cities are main sources of nation wealth. Even if this is a fact share by many countries, the abilities of metropolises to improve quality of life is also dependant on its governing methods (table below).

Table 7: Effective Metropolitan Governance reform

Country	Lesson	Description	Example
France	Develop metropolitan leadership and/or ownership	A relevant personality and/or institution often play a pivotal role in steering change and creating and maintaining momentum for reform. The reform needs a strong advocate as the engine of the process. Clear demand for reform may stem from different constituencies.	Impetus towards governance reforms in the three largest metropolitan areas has been largely (if not exclusively) driven by the central government in Paris; local governments in Lyon (municipalities and department); and the private sector, as well as the central government in Marseille.
Sweden	Balance clear time frames and flexibility	Providing visibility in the short and long term will allow actors to anticipate the next steps of the process, while leaving room for trial and error, as well as midway adjustments.	Governance reforms have first been tested in a few pilot regions (Västra Götaland around Gothenburg, and Skåne around Malmö) with a multi-annual timeline and evaluation mechanisms, before extending the formula to other interested regions.

Source: OECD Regional Outlook 2014: regions and cities: where policies and people meet, table 3.6, p. 84. From Kim, S.-J., A. Schumann and R. Ahrend, (2014), “What governance for metropolitan areas?” *OECD Regional Development Working Papers*, OECD Publishing, Paris.

In the French politically dominated model, the governance of metropolitan areas is driven toward concentration but also toward the constitution of dominant political leaders who are

able, by their influence to override the political layers of central governance to be able to impose reforms in cities. In the Swedish economically rational model, governance issues are tackled directly, for example, the impact of municipal decisions on individuals, the role of public and private leadership of urban development. Policies are tested through economic monitoring to see what effect introduction of changes make.

We can already see that the Swedish governance system is better suited at handling regional and urban problems since the governance has a greater capacity for continuous adaptation allowing it to maintain a long-term development trajectory. Regions with coordination systems, which are in tune only to top-down political agencies rather than demand driven services are compromising and threatening their long-run viability and development.

By offering a comparison between France and Sweden, we are able to demonstrate alternative performance model of governance, which taint the formation of social capital through alternate norms of interpersonal trust and values of the civic society. Since in this paper, we do not cover firm's economic performance in agglomeration, thanks to innovation, human capital, R&D output and ability to reach international markets, we attempt to scrutinize the efficiency of social capital as an elusive indicator of human supply. As such, we strongly suggest that the social atmosphere of a region needs to take into account institutional economics factors.

In the following section, we review the notion of social capital as indicator of the supply side. We consider it along three dimensions: a- the role of social capital as an informal institution in regional development, b- the condition in which social capital is part of a public good and

delivered by interest groups, and c- if we can evaluate this public good along the line of capital investment and depletion.

3- Toward the “social atmosphere” of regions

In this section, we want to identify the problems as well as the opportunities offered by an informal definition of institutions, such as social capital. Let us consider known limitations on the role of institutions in economic development:

- There is a lack of direct firms’ evidence⁸ for linking informal institutions and economic development and welfare
- Institutional economists think that informal institutions like culture, religion, identity etc. play a significant role in the development economic activities.
- Institutions can smooth the process of knowledge and innovation transfer within and across regions by lowering uncertainty and information costs (North, 1990; Vasquez-Barquero, 2002).
- Informal institutions may display “adaptive efficiency” or “learning capacity” in allowing local actors to adopt new knowledge and engage in innovative activities (Morgan, 1997).
- A high density of local information institutions describing a thick network of institutional information which include “the presence of many institutions, inter-institutional interaction, a culture of collective representation, identification with common industrial purposes, and shared norms and values which serve to constitute the “social atmosphere” of a particular locality.” (Amin and Thrift, 1995: 104)

⁸ They maybe a lack of proxies to capture different types of institutions, different institutional arrangement in different location can have similar results, or the link between institutions and economic outcome is not causal.

- Shared conventions embedded in the territory (Trigilia, 1990) including strong communitarian bonds, in shared political, social and cultural identity.
- There is a lack of consensus upon which of those informal institutions matters for regional economic development (lack of adequate and comparable data).

This problem of definition of informal institution affecting regional economic development brings us to consider a series of restrictions on the definition of “social capital” as an informal institution of regional development. Those restrictions are done in order to reduce the conceptual vagueness researchers complained about (Durlauf & Fafchamps, 2006: 1642).

The three restrictions on the definition of social capital are as follows. First, we consider a definition of social capital as an informal counterpart to formal institutions (Westlund, 2006). Second, we assume a utilitarian objective to the use of social capital to improve or facilitate regional development. The objective is to deliver public good avoiding a series of related problem such as the principal agent problem, free riding, etc. Although, at this level of generality, we do not suggest econometrics’ model for measuring social capital⁹, we consider actors of the interest groups as supplying social capital. Third, one should evaluate social capital along Solowian requirements of capital investment and depreciation (Solow, 1995).

i. Social capital as informal institution

Institutional researchers have found that institutions matters more in economic growth and development than previously admitted (Rodrik et al. 2004; Acemoglu et al. 2005; Knack, 2003, Beugelsdijke al. 2004; Beugelsdijke and Van Schaik. 2005; Putnam, 1993, 2000). Governing

⁹ Tobias Ritter Social Capital as a determinant for Good Governance – An empirical analysis of the 27 EU Member States is an attempt to measure social capital with indexes.

institutions understand that traditional, i.e. macro-economic strategies of “one size fits it all” approach is reaching its limits (OECD regional outlook, 2014: 26) and that local institutions are critical for the development and implementation of development strategies and for the integration of complex interactions created in a changing economic environment (Westlund & Bolton, 2003).

Our focus on institutions of regional development involves scrutinizing governance as formal institutions (such as the rules of law, human rights and private property rights) and informal institutions ones. In this paper, we consider the informal ones along the line of communities’ organisations (Rodriguez-Pose and Storper, 2006; Rodriguez-Pose, 2013) involving social capital and institutional thickness (Amin and Thrift, 1995: 104). Research has shown (Rodrik et al. 2004) that defective formal institutions actual impact negatively economic development. In this paper, we have circumvented the issue of formal institutions in comparing two EU countries which formal institutions provide those basic citizen rights. We concentrate therefore on informal institutions to find out to what extent they enhance regional economic performance?

ii. Social capital and public good

Social capital involves 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.

We choose to address the notion of social capital with an utilitarian objective 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. Beside the fact that measures of trust and associations are more difficult to find at regional levels (Westlund & Adam, 2010: 904), there is a research need to investigate in some form or another components of social capital, as norms and values in relationship to sub-national institutions.

One argument we make on norm and values here when studying sub-national institution is assuming that public organisations are working at producing effective governance. Dabson (2006: 5) gives the definition of what we mean by effective governance which

Incorporates a variety of decision-making and implementation practices by a wide range of people, organizations and institutions beyond government: non-profit groups. Faith-based organizations, community foundations, citizen alliances, community colleges, business associations and others. Moreover, effective governance incorporates community building: process that develop leadership, enhance social capital and personal networks and strengthen a community's capacity for improvement.

This definition of governance formulates a strong argument for cooperation. In other words, we assume the values public agencies are building social capital with stakeholders for

coordinating their objectives, for the sake of producing collective goods. Therefore, the role of regional governance is conceived as a critical element of proactive management facilitating action and reducing issues regarding regional communities, resources (such as information asymmetries, information paradoxes, moral hazard, free riding, lack of trust and opportunism).

iii. Solow's requirement for evaluation

Following on our utilitarian approach of social capital, we complete its definition by assuming Solow (1995) requirements whereby those formations can be characterised by “an identifiable process of investment that

Adds to the stock, and possibly a process of “depreciation” that subtract from it. The stock of social capital should somehow be measurable, even inexactly. Observable changes in it should correspond to investment and depreciation.

For our topic in regional development, it implies that social capital is the fruit of different associations of informal institutions producing public good, which can be evaluated by its appreciation and depreciation. This definition of social capital corresponds to Guiso et al. (2010) definition of civic capital understood as “those persistent and shared beliefs and values that help a group overcome the free rider problem in the pursuit of socially valuable activities.”

One key concern now is to translate this qualitative approach of social capital into an identifiable guideline for regional policy. In the last part of this paper, we are going to a- remind the comparative institutional context between France and Sweden; b- indicate the area where civil society action is likely to emerge, namely the interest groups and their functioning; c- show pattern of expected interaction between those interest groups and the

institutional context of France and Sweden. This section will provide substance to what is meant by norms of social capital for improving regional development. d- We will reach a conclusion on the outcome of this interaction between interacting institutions. We are going to emphasize the values that we see complementing best the norms of social capital for regional development.

4- Regional governances and interest groups

The utility approach of costs, is directly inspired by Coase and Buchanan, and provides tools to comparative analysis between France and Sweden's 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.

We use the economic theory of choice and subjective cost to assess regional policies from the point of view of their social utility. Therefore, we assume:

- 1- Actors in economic processes and governmental bodies are not trading commodities with each other's but utility.
- 2- People are selfish and do not rise above their parochial concern. Public officials are not benevolent servants of the public good *de facto* but *de jure*. They need incentives from the civil society to carry on meaningful public services. Civil organisations are servant of their private good. As such, they are instances of organisation dealing with social needs.

- 3- Actors are reasonable. Private and public actors are working under the utilitarian assumption that their association will produce better values if their marginal benefit outweigh their marginal cost ($MB > MC$).

To operationalise this social utility function, keeping in mind Solow's requirement for identifying investments and depreciations, we use Buchanan (1963; 1969) theory of public choice. Buchanan's theory stipulates that individuals and their choices is the unit of analysis. In the institutional context of this paper, those individuals can be representatives of public and private institutions. The self-interest of private and public representatives will differ, i.e. the relative ratio of their marginal cost on their marginal benefit will vary in relation to the institutional environment in which choices are made.

Let us start assessing the French and Swedish regional institutions in light of their ability to promote economic, social and cultural cohesion. We review regional government mechanisms for cooperation and integration with civil society's interest groups.

4.1- Social capital, interest groups and the civil society

Westlund & Adam (2010) raised a concern about current research in identifying the role of social capital in regional productivity. They indicate that trust has been often cited as the main social norm and value, which affect statistically and significantly economic growth. The authors suggest that in our time of knowledge economy (Mellander & Florida, 2012), values of risk taking and entrepreneurship (Knight, 1921; Schumpeter, 1942), creativity and tolerance (Florida, 2002; 2005) may take higher ground in the civil society. Their literature survey shows that those values and norms were rarely present as solid indicators of economic growth or regional betterment although there is ground to suspect some effects. The

institutional economic approach renders recurrently difficult any linear measurement of such norms and values on regional economic growth. This is the case not because there is a lack of marginal effect, but because political institutions which efforts are not evaluated by the private rules of property, prices and profit plan (Tullock & MacKensie, [1975], 1989) mediate its effects. In other words, private and public institutions are playing with different norms and values. In 2007, Sweden has 26 % of its labour force employed in general government, and France 22.5 % (in 2006) putting both nations on top of the OECD comparison on that matter.

1- A normative room for improvement would be if France and Sweden aimed toward having the German rate of 9% of general government in the total labour force. This could be an avenue for creating a vibrant entrepreneurial environment. 2- In terms of private human capital itself, stopping or inverting its diminishing return demand on national champions creating Smithian growth, i.e. an increase of specialisation widening the market.

3- A third source of human capital is found in public sources either in governments or in civil associations. To hypothesis an increase of specialization, one needs to take the Nelson/Phelps' thesis of human capital saying that the major role of human capital is not to increase productivity in existing tasks, but to enable workers to cope with change, disruptions often induced by new technologies (Nelson, & Phelps, 1966). This type of human capital is available in social innovation (Grisolia and Ferragina, 2015) and social entrepreneurship (Mulgan et al. 2007). Mulgan et al. (2007) defines social innovation as

The innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly developed and diffused through organisations whose primary purposes are social.

We counts amongst those social needs, distance learning, self-help health groups, self-building housing, neighbour kindergarten, consumer cooperative, micro credit, etc. We could include in those activities, social entrepreneurship which draws on business techniques to

solve social problems. In general, all those activities, creative activities (involving an effort of creativity emerging out of fluency and flexibility amongst a wide range of disciplines) are part of local initiatives and increase the local capability of self-organisation. To address that kind of social capital in an evaluative way, Olson's theory (1965) of special interest groups and Buchanan's theory of clubs (1965) are useful. Those theories suggest that the public interest can be best governed by making collective choices at the lowest possible level of political authority¹⁰. In other words, civil associations, interest groups and clubs are able to provide services at a lowering marginal cost through networks and cooperation with other private or public organisations. The question is to assess to which extent interest groups are vectors generating social capital enhancing progress in regions.

Interest groups are organisations, which members collectively produce public goods that no one could finance individually. They are producing public good by a voluntary system of membership and they maintain adherence to the organisation through lobbying. Interest groups are characterized by the way they finance their lobbying activities. They are 1- responsive to the composition and size of government budget (Buchanan & Tulloch, 1958) and 2- they apply a by-product theory of collective action (Olson, 1965). This theory stipulates groups, which are able to engage in lobbying for collective good, do so as a by-product of the main function. For example, an established organization having a substantive membership (professional groups, unions, industrial interests, chamber of commerce, famous

¹⁰ Vasquez-Barquero (2002) range of institutional actions improving regional growth are clearly economic, i.e. try to facilitate economic transaction per se (production costs, entrepreneurial capacity), and others are institutions utilities (improve learning mechanisms), and their implications in terms of social cohesion (trust between economic and social actors, improve network and cooperation). Vasquez-Barquero's (2002) listed some utilities regional institutions are trading with each other's:

1- Reduce transformation and production cost
2- Increase trust among economic and social actors
3- Improve entrepreneurial capacity
4- Increase learning and relations mechanisms
5- Reinforce networks and cooperation among actors

personality, etc.) may engage in collective action. The following table 8 is summarizing how those interest group functions by integrating formal and informal rules of the game, which operate concomitantly:

Table 8: The function of interests groups

<i>Interest groups</i>	<i>Equilibrium in participation</i>	<i>Rules of the game</i>	<i>Norms</i>	<i>Examples</i>
<i>Marginal Cost (MC)</i>	Keep membership cost low	Enforcement of the service provided by the interest group. If $MC > MB$, then another interest group may compete for the same service.	Avoid free riding is an informal rules reinforcing the formal rules. Keep the cost of reinforcement low.	Neighbour watch association, Car-pooling services, Sport clubs, bio food cooperative,
<i>Marginal Benefit (MB)</i>	Enforce membership, Economy of reputation	Enforcement of the service provided by the interest group. If $MC < MB$, the interest group maintain his service monopoly.	Marginal benefit can be increase by associating with other private interest groups (ex. consortium) or public interest (ex. partnership) or both.	Technical consortium (W3C), Open Source Communities.

Source: Olson (1965) and Buchanan (1965).

The table shows how interest groups function. Their rule of the game is to keep the marginal benefit of membership above the marginal cost of joining the club, association or interest groups. The way those organisations maintain good functioning (equilibrium) is by monopolistically pricing the goods or services above their investment cost. In so doing, interest groups raise money to finance its lobbying activities (Olson 1965). The informal rules correspond to the marginal cost of the free rider's problem. In other words, an interest group must guard itself against a member who will benefit his share of the group's effort without supplying any himself. Those informal rules (or norms) reinforce the formal pricing of services to its membership. The formal rules also includes the ability of the interest group to contract with similar private interest groups or public institution, such as regional or municipal government to increase their membership or lobbying effect. That association will

help to lower their enforcement cost or increase their reputation. If those interest groups do not manage to find the best alignment between their informal norms and the reinforcement of their service, the cost of cooperation will become prohibitive. In other words, those interest groups will fail to provide social capital. Let us explore that proposition for our two countries.

4.3- Patterns of interaction between sub-national institutions and interests groups

In this section, we assess the institutional condition under which sub-national institution would gain to interact with special interest groups (table 9 below). The comparative institutional analysis between France and Sweden aims to show how institutional framework reinforce or conflict with self-governing interest groups.

Table 9: Governance types and cost and benefit of cooperation with interest groups

	<i>France</i>	<i>Sweden</i>
Governance type	Central government → Region → Department → Commune	Limited government → Region → Commune
Relation to interest groups	Subordinate contracting (monopoly of subsidies and subsidies seekers)	The limited scope provision allows the preferred association of interest groups.
Cost of cooperation with interest groups	Exclusivity system <u>Cost of entry</u> is high for interest groups. They need to be large organisation. Either political union types or collusion with private interests. The monopoly is maintained by the collusion between private firms and political offices through the elite school system, (ENA, Central). <u>Administrative cost</u> : high since beside the administrative cost of contracting, one add the politician's granted privilege to monopoly market (the cost of corruption). This cost is passed along to the citizen. <u>Principal-agent problem</u> : Interest groups work exclusively as subsidies & political privilege seekers.	Competitive system <u>Cost of entry</u> is competitively high for interest groups. Decentralisation (1980s) of communal functions (social services, health and medical care; conservation of natural resources, planning and building) to interest groups and civil society and generalisation of competitive tender. <u>Administrative cost</u> is maintain low through price competition. <u>Cost of participation</u> is equivalent to the administrative cost of contracting, tendering and applications.
Benefit of cooperation with interest groups	Large national coverage, pure monopoly, rent on services delivery exclude the entry of local interest groups.	Vertical trust and control device between the state and the local government. Ability to bring local interest groups to compete with larger ones.
Membership rate	Sport 12.3 %; third age clubs and leisure, 9.6%; Unions and political groups, 7.3 %; culture, 5.9%; Leisure, 4.7%; Social action, humanitarian activities 4.1%; civil right defence and common interest, 2.5 %	Culture, art and sport 32.53 %; Education and research, 5.46 %; Health, 0.52 %; Social security and health insurance fund, 16.15 %; Environment and animal protection, 1.47 %; Living and Social

	(INSEE, 2008).	Development, 5.57 %; Politics and Opinions, 16.65 %; Foundations and fund raising, 0.3 %; International activities, 0.5 %; religious activities 2.62 %; Professional unions and trade associations, 17.8 % . (SCB, 2010).
<i>Distance with civil society</i>	High. Neglects downward citizen collaboration and concerns.	Low. High integration of citizen in common causes and individual collaboration.
<i>Challenge</i>	Civil society participation in governance.	Productive diversification of tastes and purposes. Issues of scaling up scope.

Source: * INSEE, Enquête SRCV-SILC 2008. L'enquête statistique sur les ressources et conditions de vie; ** SCB (2012) Det civila samhället 2010¹¹.

The comparison shows that two definitions of social capital are at work. In the case of France, it is hierarchical, exclusive (as non-inclusive) i.e. defined by very narrow selection path in specific Parisian elite school networks. In the case of Sweden, social capital follows Putnam's definition as "features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions" (Putnam, 1993: 167). It is assuming an institutional division of labour, each fulfilling specific tasks mutually needed to function normally.

In the French exclusive model, the Bourdieusian definition of social capital fit better its institutional context¹² since social capital is regarded as a resource procured via the belonging to the network itself. In other words, social capital fits the definition of the clique¹³ defined in social network theory as the maximum number of actors who have all possible ties present

¹¹ Enquête SRCV-SILC 2008. L'enquête statistique sur les ressources et conditions de vie (Dispositif SRCV) est la partie française du système communautaire EU-SILC (European union-Statistics on income and living conditions). Frédéric Luczak et Fella Nabli (2008) "Vie associative: 16 millions d'adhérents en 2008", N° 1327 - DÉCEMBRE 2010, INSEE première. If we count the multiple membership to associations, we obtain 21 million members. ** The percentage are calculated on counting the multiple membership to associations, which brings the members of associations in Sweden at 22 767 202 members (more than the total population of the country). SCB (2012) Det civila samhället 2010 – ett regeringsuppdrag med undersökningar från Statistiska centralbyrån, table 9, SCB Örebro, p. 36.

¹² Bourdieu's definition of social capital fits better political cliques and the collusion of groups of interests. Bourdieu defines social capital as "the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu and Wacquant, 1992:119).

¹³ It explains why other interest groups such as the French political unions behave as clique against clique. They are more likely to use Marxist class conflict rhetoric, which mimics the pre-capitalist power struggle between two high-stylized cliques (the "elites" and the "representative of the people").

among themselves (Hanneman & Riddle, 2005). Large civil organisation can afford lobbying as a by-product activity. It explains why civil interest groups in the French society dominated by municipalities' interest groups cannot emerge on a larger national scene. As a result, they represent 31.34 % of the total population. Further, governance is an exclusive system meaning that the scope of participation of the civil society interest groups to municipal or regional policies is restricted in by size of the municipalities and the lack of procurement contracting. The rate of participation of the French population to interest groups is not showing only low participation but institutional restriction on its development. For the interest groups to attain their full potential, it will require the civil society to grow its own concern by 2/3. In the future, another challenge of the French interest groups is to interact with local governance in a productive manner. Without a positive ratio toward the civil society interest groups, it will be difficult for the French civil society to improve its human capital, social cohesion and the entrepreneurial spirit.

In Sweden, the rate of participation in civil organizations represents 255 % of the total population. It confirms a very different model of civil participation in society. The Swedish citizen is participating to 2.5 interest groups on average over the total population. A large part is explain by the fact that 70 % citizen are affiliated to trade unions since those perform insurance security services in case of unemployment. Beside this essential security, the citizen of Sweden is more likely to engage with great serenity in the activities of their choices. In the Swedish context, the condition of participation between interest groups and local or regional level are open under the competitive condition of contracting or tendering which is largely developed in local affairs. Westlund (2012) showed that civil interest groups produce beneficial social capital on the supply side under condition of diversified entrepreneurship. It comprises six types of entrepreneurship (economical, academic, civil, innovative, social and

political) being potential sources of diversified supply. His preliminary results show that political/policy entrepreneurship (Buchanan & Badam, 1999) is positively connected to growth in municipalities outside the metropolitan regions. It may be an indication that contracting between interest groups and municipalities is a successful endeavour. The double challenge for the future is to allow this entrepreneurial diversification of interest groups to meet successful economic condition, i.e. to be able to scale up so that marginal benefits counterbalance marginal costs. For Sweden, the on-going challenge for years to come is a sustainable distribution of entrepreneurial spirit across local constituencies. In conclusion, of our comparison between France and Sweden, we draw some remarks about 1- the norms and values driving the differential use of social capital in both countries and 2- on the differential sovereignty of individuals to fuel any form of entrepreneurship.

5- Conclusion: Are Interest Groups Suppliers of Entrepreneurship?

The institutional approach helps to address issues of governance and social capital in regions in several accounts. It gives a more concrete picture to an elusive “social atmosphere” of a region into an evaluation of coordination between interest groups and sub-national governments. It also answers partially Westlund and Adam (2010: 903) objection that measuring civic organizations neglect key social networks influencing the economy. In providing an inclusive approach of interest groups (such as professional organization on the same plan than leisure association), we took the Putnam/Coleman’s social network criteria of coordination and cooperation as a standard of mutual benefit for society. In other words, the ability to generate new services, ideas or competition emerges when people in network increase their connectivity, i.e. when many different pathways connect two actors. The question of evaluation of that connectivity become a question of social network analysis

seeking to measure the marginal cost/benefit of connection, scope and scale of interest groups to others and to sub-national governments.

Another important point raised by Westlund and Adam (2010: 902) is whether this social capital atmosphere is generating any norms and values influencing economic growth. We will have two levels of answer to this question. First, a general answer coming out of the comparison between France and Sweden in terms of “social capital atmosphere”. Second, a more policy orientated answer identifies needs to enhance the creation of interest groups as services suppliers.

The comparison between France and Sweden system of local governance and their link to civil society shows two Weberian ethics of political action. In his essay “politics as a vocation”, Weber (1919) distinguishes between an “ethic of conviction (toward ultimate ends)” and an “ethic of responsibility.” The French governance is pushing upon its citizen an ethic of conviction, a republican ideology of religious proportion. The presence of this ideology in the organization of national and sub-national institutions does not mean that people behave irresponsibly¹⁴. It means that governmental interest groups create an ideological cloud that deflects the civil society’s treatment of its problem in economic terms. In this context, the social atmosphere in France is polluted by political confusion rather than gearing toward better means of economic growth. The low trust level¹⁵ and low interest groups involvement shows the work of submission of civil interest groups to governance ideological requirements. Since French institutions are working with the primacy of politics as a value system, interest groups who are aiming at their own independent objectives may be

¹⁴ In the opinion survey produced by the Standard Barometer 74 on public confidence in regional and local government agencies, in % in spring 2010, France and Sweden scored similarly. 57 % of the French panel and 64 % of the Swedish panel declared to have confidence in their regional and local authorities. The average of EU27 is 47 %.

¹⁵ In the opinion survey produced by the Standard Barometer 74 on public confidence in the national legal system, in % in spring 2010, show a discrepancy of behavior on national institution working for the protection of individual integrity and private property. 45 % of the French panel and 73 % for the Swedish panel declared to have confidence in their national legal system. The average of EU27 is 47 %.

considered dissident of the ideological principles of government agencies. It may explain why the French civil society is not engaging so much in interest groups to avoid dealing with those patronizing institutions (Hayek, 1944: 171; Weber, 1919) ¹⁶. In this context, public interest organization may not be more effective than individual engagement into cultivating its own autonomy of decision, life style and opinion. In the French context, the issue for interest groups and the emergence of productive social capital is to minimize the potential of political coercion and maximize the protected sphere of the individual sovereignty (Buchanan, 1995/6). German federalism or Swedish limited government still constitutes models to implement to curtail central power, avoid citizen exploitation by sub-national government and allow the voices of interest groups to emerge.

Sweden offers an incommensurable contrast to the political maxim of conviction through the ethic of responsibility convey through its institutions. In this framework, the clear distribution of attribution between central government and sub-national agencies and the interaction with civil society is governed by the principle of foreseeable results of action procured mainly through economic evaluation and other audit systems. The issues one faces with interest groups who are increasingly going to cultivate their autonomy of decision, life style and opinion, is to what extent they will succeed in doing so ¹⁷?

Westlund (2012) indication that Swedish political and policy entrepreneurship is positively connected to non-metropolitan municipalities could indicate that institutional groups having social capital close to each other may cooperate best. If social capital is going to play a role in

¹⁶ Even if the institutions are designed for good intentions, intentions are not sufficient. In the eyes of government agencies, if policies fail, this is the fault of the citizen's miscarriage rather than the questioning of principles. Weber gave the example of the unionist who behave according to the principle of conviction. As such, the most important rule of conduct is to keep his conviction intact, i.e. the idealistic view that one protest against the injustice of the social order. This principle applies to French's state agencies as well.

¹⁷ The civil society entrepreneurial challenge may reach a human capital ceiling due to the high level employment in general government both in France and Sweden.

the regional social atmosphere, interest groups will be facing the entrepreneurial challenge¹⁸, i.e. to manage to extract marginal benefit in their area of expertise with local support, well identified supply function and scaling up capabilities. Certainly, those dimensions need further empirical investigations.

¹⁸ Nownes and Neely (1996) have shown that patrons play no significant role in creating interest groups but independent entrepreneur and their social network of friends do. The demand for such groups is supported by the response of those interest groups to easily identifiable events (or social disturbances). The authors show that starting condition for new groups formation do not face the “free rider” issue.

References

- Abel, T. & R.R. Stough (1999), Social Capital and Regional Economic Development. Paper presented at the Southern Regional Science Association Meeting, April 15-17, Richmond, VA.
- Acemoglu, D. Johnson S. and Robinson, J. A. (2005) "Institutions as a fundamental cause of long-run growth," in Aghion, P. and Durlauf, S. N. (eds.) *Handbook of Economic Growth*, North Holland: Amsterdam: 385-472.
- Ahrend, R. and A. Schumann (2014), "Approaches to metropolitan area governance: A country overview", *OECD Regional Development Working Papers*, No. 2014/03, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jz5jlq7s128-en>
- Akcomak, I.S. & B. ter Weel (2009), Social Capital, Innovation and Growth: Evidence from Europe, *European Economic Review* 53, 544-567.
- Alchian, Armen, and Harold Demsetz. (1973) "The Property Rights Paradigm." *Journal of Economic History* 33, no. 1, 16–27.
- Alfonso Gil, J. (1997) "Instituciones económicas: contornos de la triada básica" in *Economistas* 73: 128–136.
- Alfonso Gil, J. (1999) "The dynamics of socioeconomic change: an approach," Madrid: Departamento de Estructura Económica y Economía del Desarrollo, Universidad Autónoma de Madrid, mimeo.
- Amin, A. (1999), "An Institutionalist Perspective on Regional Economic Development", *International Journal of Urban and Regional Research* 23, 365-378.
- Amin, A. & N. Thrift. (1995) "Globalization, institutional thickness and the local economy", in Healy P., Cameron S. and Davoudi A. (eds.) *Managing Cities: The New Urban Context*, Wiley: Chichester: 92-108.
- Amná, E. & I. Munck, (2003) "Socialt och Politskt Kapitel", *Föreningslivet i Sverige*, report 98, SCB, Stockholm: 75-96.
- Anderson G. M.; Schughardt II, W. F. & R. D. Tallison (2004) "The Economic Theory of Club", *The Encyclopedia of Public Choice*: 499-504.
- Antoci, A., P. Sacco & P. Vanin (2007), "Social Capital Accumulation and the Evolution of Social Participation", *Journal of Socio-Economics* 36, 128-143.
- Becker, G. S. (1983). A theory of competition among pressure groups for political influence. *The Quarterly Journal of Economics*, 98, 371-400.
- Beugelsdijk S., De Groot, H. L. F. & A. van Schaik, (2004) "Trust and economic growth", *Oxford Economic Papers* 56: 118-134.
- Beugelsdijk S., & A. van Schaik (2005) "Differences in social capital between 54 Western European Regions", *Regional Studies*, 39: 1053-1064.
- Bourdieu P. and L. Wacquant, (1992) *An invitation to reflective sociology*, Chicago: The University of Chicago Press.
- Buchanan, J. M. (1963) "The Economics of Earmarked Taxes", *Journal of Political Economy*, vol. 71, no. 5, oct. 457-469.
- Buchanan, J.M. (1965). "An economic theory of clubs." *Economica*, 32(February): 1–14.
- Buchanan, J. M, (1969) "External Diseconomies, Corrective Taxes, and Market Structure," *American Economic Review*, American Economic Association, vol. 59(1), March, 174-77.
- Buchanan, J.M. (1995) "Federalism as an Ideal Political Order and an Objective for Constitutional Reform." *Publius: The Journal of Federalism* 25(2): 1-9.
- Buchanan, J.M. (1995-6) "Federalism and Individual Sovereignty." *Cato Journal*, 15(2-3): 259-268.

- Buchanan J. M. & R. Badam, (1999) *Power, Politics and Organizational Change: Winning the Turf Game*, London: Sage.
- Buchanan, J.M., Tullock, G. (1962) *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. University of Michigan Press, Ann Arbor.
- Coase, R. H. (1960) "The Problem of Social Cost", *Journal of Law and Economics*, 3(1): 1-44.
- Coleman, J.S. (1988), "Social Capital in the Creation of Human Capital", *American Journal of Sociology* XCIV, 95-120.
- Coleman, J.S. (1990), *Foundations of Social Theory*, Harvard University press, Cambridge, MA.
- Dabson, B. (2006) "Eight principles for effective rural governance and how communities put them into practice". RUPRI. www.rupri.org/Forms/RGIreport.pdf.
- Alexis De Tocqueville, A. (1856) *The Old Regime and the Revolution*, trans. John Bonner, New York: Harper & Brothers.
- Durlauf S. & Fafchamps M. (2006) "Social Capital" in Aghion P and Durlauf S. (eds.) *Handbook of Economic Growth, vol. 1*, Elsevier: Amsterdam, 1639-1699.
- Florida, R. (2002) *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community, and Everyday Life*, Basic Books, NY.
- Florida, R. (2005) *Cities and the Creative Class*. New York: Routledge.
- Frinault T. (2012) « La réforme territoriale de 2010 : un remodelage compromis ? », *Métropolitiques*, 24 octobre 2012. URL : <http://www.metropolitiques.eu/La-reforme-territoriale-de-2010-un.html>
- Fukuyama, F. (1995), *Trust: The Social Virtues and Creation of Prosperity*, Free Press, New York.
- Fukuyama, F. (2000) "Social Capital and the Civil Society", *IMF Working Paper Number 74*, International Monetary Fund (IMF), Washington, DC.
- Granovetter, (1985), "Economic Action and Social Structure: The Problems of Embeddedness", *American Journal of Sociology* 91, 481-510.
- Grisolia, F. and Ferragina, E. (2015), "Social Innovation on the Rise: yet another buzzword in a time of austerity?", *Salute e societa*, vol. 1, 169-179.
- Guizo, L., P. Sapienza & L. Zingales (2010) "Civic capital as the missing link", working paper, Kellogg Business School, Northwestern University, IL. http://www.kellogg.northwestern.edu/faculty/sapienza/htm/civic_cap.pdf
- Hanneman R. and M. Riddle. (2005) *Introduction to social network methods*, Riverside, CA: University of California, Riverside (published in digital form at <http://faculty.ucr.edu/~hanneman/>)
- Hooghe, M. & Stolle, D. (eds.) (2003) *Generating Social Capital: civil society and institutions in comparative perspective*, New York: Palgrave MacMillan.
- Huillet, C. (2004) Foreword in Lovan, Murray and Shaffer (Eds.), *Participatory Governance: Planning, Conflict Mediation and Public Decision-Making in Civil Society*. Hany, England: Ashgate.
- Huyseune, M. (2003). "Institutions and Their Impact on Social Capital and Civic Culture: The Case of Italy", in: Marc Hooghe & Dietlindt Stolle (eds), *Generating Social Capital. The Role of Voluntary Associations, Institutions and Government Policy*. New York/London, Palgrave, 2003, 211-230.
- Kim, S.-J., A. Schumann and R. Ahrend, (2014), "What governance for metropolitan areas?" *OECD Regional Development Working Papers*, OECD Publishing, Paris.
- Knack, S. (2003) "Groups, growth and trust: cross-country evidence on the Olson and Putnam hypotheses," *Public Choice* 117: 341-355.
- Knight, H. (1921) *Risk, Uncertainty, and Profit*, Boston MA: Houghton Mifflin.

- Krugman, P. (1991) "Increasing Returns and Economic Geography", *The Journal of Political Economy*, vol. 99, no. 3, Jun., 483-499.
- Lucas R. (1988) "On the mechanics of economic development", *Journal of Monetary Economics*, vol. 22, issue 1, 3-42.
- Luczak F. & F. Nabli (2010) "Vie associative: 16 millions d'adhérents en 2008", *INSEE premiere*, n° 1327 Décembre.
- Mayer, N. (2003) "Democracy in France: Do Associations Matter?" in Hooghe, M. & D. Stoller (eds.) *Generating Social Capital : Civil Society and Institutions in Comparative Perspective*, Palgrave MacMillan, New York: 43-66.
- Mellander, C., R. Florida (2012) "The Rise of Skills: Human Capital, the Creative Class and Regional Development", *CESIS Electronic Working Paper Series*, Paper No. 266, March 2012, 26 p. At http://www.cesis.kth.se/polopoly_fs/1.339280!/Menu/general/column-content/attachment/CESISWP266.pdf [Accessed 01/05/2015]
- McKay, A. and S. W. Yackee. (2007) "Interest group competition on federal agency rules", *American Politics Research*, vol. 35, no 3: 336-357.
- Ministry of Finance (2005) *Local government in Sweden, organization, activities and finance*, Swedish Government official report, Swedish Association of Local Authorities and the Swedish Federation of County Councils.
- Morgan, K. (1997) "The learning region: institutions, innovation and regional renewal", *Regional Studies*, 31: 491-503.
- Mulgan, G., S. Tucker, R. Ali & B. Sanders (2007) *Social innovation: what it is, why it matters & how it can be accelerated*, Said Business School, Skoll Center for Social Entrepreneurship, Working papers, Oxford.
- Nelson R. R. and E. S. Phelps (1966) "Investment in Humans, Technological Diffusion, and Economic Growth", *The American Economic Review*, Vol. 56, No. 1/2, Mar. 1, 69-75.
- North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge University Press: Cambridge.
- North, D. C. (2005) *Understanding the process of Economic Change*, Princeton university Press, Princeton, NJ.
- Nownes, A. J. & G. Neeley. (1996) "Public Interest Group Entrepreneurship and Theories of Group Mobilization", *Political Research Quarterly*, vol. 49, no. 1: 119-146.
- OECD (2012) Trade Union density, 1999-2013, Statextract at https://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN
- OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris.
- OECD (2014) *Regional Outlook 2014: Regions and Cities: where policies and people meet*, OECD Publishing, Paris.
- Olsen, J. P. (1990) *Demokrati på Svenska*, Stockholm: Carlssons.
- Olson, M. (1965) *The Logic of Collective Action: Public Goods and the Theory of Groups*. Harvard University Press, Cambridge.
- Putnam, R. D. (1993) *Making democracy Work: Civic Tradition in Modern Italy*, Princeton University Press, Princeton, NJ.
- Putnam, R. D. (2000) *Bowling alone: The Collapse and Revival of American Community*, Simon and Schuster, New York, NY.
- Putnam, R. D. (ed.) (2002) *Democracies in Flux: The Evolution of Social Capital in Contemporary Societies*, Oxford: Oxford University Press.
- Rodriguez-Pose, A. (1998) *Dynamics of Regional Growth in Europe*, Oxford: Clarendon Press.
- Rodriguez-Pose, A. (2013) "Do Institutions Matter for Regional Development", *Regional Studies*, 47: 7: 134-47.

- Rodriguez-Pose, A. & M. Storper. (2006) "Better rules or stronger communities: On the social foundations of Institutional change and its economic effects", *Economic Geography*, 82: 1-25.
- Rodrik, D. Subramanian F. & Trebbi F. (2004) Institutions rule: the primacy of institutions over geography and integration in economic development, *Journal of Economic Growth*, 9: 131-165.
- Romer P. M. (1986) "Increasing Returns and Long-Run Growth", *Journal of Political Economy*, vol. 94, no. 5. Oct., : 1002-1037.
- Rothstein, B. (2002) "Sweden: Social Capital in the Social Democratic State", in Putnam, R. D. (ed.) *Democracies in Flux: the evolution of social capital in contemporary society*, Oxford University Press, Oxford: 289-332.
- Rothstein, B. & D. Stolle (2003) "Social capital, impartiality and the Welfare state: An Institutional Approach", in Hooghe, M. & D. Stolle (eds.) *Generating Social Capital: Civil Society and Institutions in Comparative Perspective*, Palgrave MacMillan, New York: 191-210.
- Schumpeter J. A. (1942) *Capitalism, Socialism and Democracy*. New York: Harper & Row.
- Scott, A. J. & M. Storper. (1992) "Regional development reconsidered". In H. Ernste and V. Meier (Eds.), *Regional development and contemporary industrial responses: Extending flexible specialization*, London: Belhaven Press: 3-24.
- SCB (2012) *Det civila samhället 2010 – ett regeringsuppdrag med undersökningar från Statistiska centralbyrån*, SCB Örebro.
- Solow, R. M. (1956) "A Contribution to the Theory of Economic Growth", *The Quarterly Journal of Economics*, vol. 70, no. 1. Feb.: 65-94.
- Solow, R. M. (1995) "Review of Francis Fukuyama: Trust: The Social Virtues and the Creation of Prosperity", *The New Republic* 11 September: 37-39.
- Statskontoret (2011) *Trends of General Government in Sweden: An overview 2011*, Stockholm.
- Stimson, R.J., R.R. Stough & B.H. Roberts (2006), *Regional Economic Development. Analysis and Planning Strategy*, 2nd Ed., Springer, Berlin.
- Trigilia, C. (1990) "Work and politics in the third Italy's industrial districts", in Pyke F. Becattini G, and Sengenberger W. (eds.) *Industrial Districts and Inter-Firm Cooperation in Italy*, International Institute for Labour Studies (ILO), Geneva; 160-184.
- Richard B. McKenzie and Gordon Tullock. ([1975], 1989). *The New World of Economics*. Homewood, Ill.: Richard D. Irwin.
- Vazquez-Barquero, A. (2002), *Endogenous Development. Networking, Innovation, Institutions and Cities*, Routledge, London.
- Weber, M. (1919, [1946]) 'Politik als Beruf,' *Gesammelte Politische Schriften* (Muenchen, 1921), pp. 396-450. Originally a speech at Munich University, 1918, published in 1919 by Duncker & Humblodt, Munich. In translation and edition by H.H. Gerth and C. Wright Mills, *From Max Weber: Essays in Sociology*, New York: Oxford University Press, pp. 77-128.
- Westlund, H. (2006) *Social Capital in the Knowledge Economy: Theory and Empirics*, Springer: Berlin.
- Westlund, H. (2012) "A multidimensional perspective on entrepreneurship", in Karlsson, C; Johansson B. and R.R. Stough (eds.) *Entrepreneurship, Social Capital and Governance: Directions for the Sustainable Development and Competitiveness of Regions*, Edward Elgar: Cheltenham, UK: 192-218.
- Westlund, H., F. Adam (2010) "Social Capital and Economic Performance: A Meta-analysis of 65 studies", *European Planning Studies*, 18: 6: 893-919.

- Westlund, H., R. Bolton (2003) "Local Social Capital and Entrepreneurship", *Small Business Economics*, 21, 77-113.
- Worms, J-P. (2003) "France: Old and New Civic and Social Ties in France", in Putnam, R. D. (ed.) *Democracies in Flux: the evolution of social capital in contemporary society*, Oxford University Press, Oxford: 137-188.