

Policy Competition in Multilevel Governance

by

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1. Background: From top down coordination to governing by competition

During the last three decades we have witnessed a significant change in the debates on regions and regional policy. Until the 1970s, regions were considered as the level where economic disparities became visible. Efforts to reduce the imbalance between regions were part of the welfare state policies in most European countries. At present, regional economic disparities have become no less important, but redistributive policies and assistance to poor regions are regarded as too costly, as producing unintended effects and as being exploited as windfall gains. Regional policy puts an emphasis on endogenous development and on mobilising the particular advantages of each region. Moreover, sustainability became a decisive aim in regional development which should be achieved by an integrative approach to promoting devel-

oping including economic, social, ecological and cultural concerns. In accordance with this change in policy, institutional reforms have been designed to strengthen the autonomy and capacities of regions, but networks and cooperation among actors in the region have been regarded as most important.

Not coincidentally, this rise of the regional level and the emphasis of sustainable development have been accompanied by the introduction of new modes of governance between levels of the political system. During the 1990, hierarchical approaches of governance in modern states – be they based on the implementation of law or on the provision of (usually earmarked) grants – came under critique and new modes of governance were invented (Kooiman 2002; Rhodes 1997). Since the last about ten years, changes in regional policy have been supported by policy competition among regions determined to break up routines, to stimulate innovation and to mobilise actors for joint projects. An integrative policy aiming at sustainable development has to deal with particular enabling and constraining conditions in a region. For this reason, this mode of governance seems adequate as it preserves or increases autonomy of regions and at the same time motivates regional actors to pursue certain standards and goals. The creation of regional milieus and networks appropriate for “learning regions”, the mobilisation of social capital for sustainable development, the reduction of transaction cost and the improvement of coordination and cooperation among firms, service providers, research institutions, associations and public administrations (Benz 2001; Fürst 2001).

During the last years, the idea to coordinate regions by competition has gained importance in the European Union as well as in a number of EU member states. In the EU, the regional level has been introduced in cohesion policy and in the regional structural funds. Since 1988, the Commission allocates a major share of these funds on the basis of programmes elaborated by the regions. While this approach supported regionalisation, it still conforms to the traditional distributive welfare policy (Anderson 1995; Bache 1998). Only since the last reform of the Structural Funds, a limited amount of grants is provided to reward best practices. Performance is measured by indicators of administrative capacities and effectiveness of implementation. Beyond the framework of the Structural Funds, the Commission supports “Regional Innovation and Technology Transfer Strategies” (RITTS) and “Regional Innovation Strategies” (RIS) in economically underdeveloped regions. Starting in 1994, the funds of this programme are distributed after competitive bidding procedures and are designed to induce innovative practices. The Commission also assigned selected regions with the “Award of

Excellence for Innovation Transfer", which followed the "Award of Excellence for Innovative Regions". Last but not least, it introduced a kind of informal policy competition among regions by communicating success stories, and it has elaborated rankings of regions according to different benchmarks. Hence we can observe a clear tendency in European multilevel governance from the old cooperative approach towards intensified policy competition among regions.

We find similar developments in European nation states. In Germany, e.g., several ministries of the federal government have reacted to regionalist tendencies and the enduring debates on the practice of joint policy-making and on the allocation of grants by switching over to governance by policy competition. A considerable amount of federal money is no longer allotted to regions in need but to regions achieving performance standards or proving as innovative. This began in 1995, when the Ministry for Research and Technology launched a competition of so-called "bio-regions". It should motivate actors in regions with special potentials in bio-technology to improve existing production clusters and to set up stable cooperation between relevant firms, administrations, universities and research institutions in order to create a productive environment for the development of this economic sector. This was followed by the competition "InnoRegio", which should induce East German regions to create networks of innovation. The federal ministry responsible for territorial planning organised the contest "Regionen der Zukunft" (regions of the future) aimed at inducing regional planning to realise the goals of sustainable development (Adam and Wiechmann 1999; Wiechmann, Löwis and Kaether 2004). In September 2001, the Federal Ministry for Consumer Protection, Food and Agriculture started the contest "Regionen aktiv" focussed on rural areas. It should stimulate the search for new ways of sustainable development in regions predominated by agriculture as well as to find solutions for an integrative policy that considers economic, social and ecological aspects of development (Meincke 2005).

Given the above mentioned changes in regional policy, i.e. the increasing importance of solutions adjusted to particular regional conditions and the declining capacities of central governments to govern and control regional development by ear-marked grants or regulation, the use of policy competition can be easily explained if we consider the benefits for both central institutions and regions:

- Firstly, policy competition influences the behaviour of regional actors by mainly resorting to their intrinsic motivation. To make incentives work, central institutions need neither power, nor do they have to spend a substantial amount of money. What is important is to set up rules for a contest, to establish structures of communication and to define standards and procedures for comparative evaluation. Therefore, for the EU and for German federal government, policy competition is particularly attractive in regional policy where they have limited funds and where their competencies are constrained.
- Secondly, policy competition promises to improve the effectiveness of grants and to achieve not only specific policy goals but to change regional governance, e.g. to implement integrative approaches of development policies, to improve cooperation, to change conservative networks and to induce innovation and “learning regions” (Benz and Fürst 2002: 31).
- Thirdly, from the perspective of regions, policy competition is favoured as mode of governance hence it preserves their autonomy. Compared to regulation and ear-marked grants, competition operates as a soft kind of coordination and control from above. Moreover, policy-makers in regions can profit from being awarded as excellent. Regions which until the 1980s mainly reacted to the pressure of globalisation and economic competition, more and more participate in best practice contests and consider them as an opportunity to innovate, to find approval and to stabilise their existence.
- Finally, best practice competition conforms to the general trend in public governance (Pollitt and Bouckaert, 2004). It can be justified by recent normative theories of public sector management and by ideas of modernising the public sector.

The fact that all actors in a multilevel setting profit from the use of this new mode of governance does not imply that it works in practice. In theory policy competition is an excellent way to stimulate learning and innovation in regions, to develop better practices and to implement general policy goals. However, a couple of conditions have to be fulfilled in order to achieve these effects. Moreover, regions or actors in regions may profit from governance by competition but they run the risk of ending as losers. Therefore, their willingness to participate cannot be taken for granted. Finally, policy competition among region affects not only regional policy-making, but also established patterns of power and interaction in regions. And

the reaction of regions to the challenge in competition is influenced by internal structures and routines. Therefore, we have to look at *the interplay of multilevel governance and regional governance (defined as structures and procedures of coordination among actors in the region)* in order to understand how the new mode of governance by competition works in practice. This paper intends to shed some light on the mechanism of policy competition and on the conditions and consequences of competitive governance as regards to politics and institutions.

2. Policy competition: Competing for better practices

Before going into the details of governance by competition, I have to start with a clarification of the basic concept: Competition is defined as a process in which (individual or collective) actors, by independent activities, achieve better performance regarding a good or value, because each of them has an incentive to be outperform the other. This definition implies three basic prerequisites of competition:

- Firstly, actors must be *autonomous and capable* to innovate or to react to the challenges of competition.
- Secondly actors must have an incentive or *incentives to compete* for the goods or values at stake, i.e. they must have an interest in achieving the relevant aims.
- Finally, they have to be willing and able to *compare performance* of all competitors, which leads to a more or less comprehensive ranking.

Competition should not be identified with the expansion of the market model to politics. The term policy competition¹ is introduced here to designate a particular type of governance at the regional level. It should be distinguished from economic competition among regions. In

¹ In the literature, different labels can be found to designate this type of competition. I prefer the term policy competition to others like “benchmarking” or “beauty contests” that were used to denominate this type of governance under consideration. It should emphasise the logic of interaction whereas the other terms only refer to the fact of comparison and evaluation. Economists usually talk about “yardstick competition” (Besley and Case 1995). However, in practical policy-making, there is no clear yardstick but standards of policy performance or more or less clearly defined goals, and the definition of standards or goals and their application is part of the political process.

debates on competitive federalism or competition among regions, both modes of governance generate are often confused. Indeed, both can – in principle – induce learning in regional policy-making, and it is also true that regions achieve economic advantages by changing their policies. Nevertheless, there are good reasons to distinguish between economic competition among regions as locations for capital and labour and policy competition determined to achieve certain standards of quality or general goals in all regions (Breton 1996: 229-235; Salmon 1987, 2003; Vanberg and Kerber 1994). The background conditions, the basic objectives and, linked to them, the incentives created by competition are different.

When regarding the background on which competition between regions emerges, it is obvious that economic competition ensues from deregulation policies. They aim at allowing firms unrestricted access to regional locations and at motivating regional policy-makers to attract tax payers. Governance by policy competition is usually applied by central governments as a device to coordinate regions and to implement standards or policy goals. Both mechanisms of interregional governance can provide incentives to actors but they nevertheless are driven by different “social mechanisms”.

In economic competition, the goods provided by a region are determined to attract tax payers, and regions gain most if they can attract them from outside their jurisdiction. In this context, the basic aim of a region is economic growth, measured in terms of GDP per capita, rate of investment, level of employment, the increase of the public budget, etc. What motivates regional actors is the input of resources. In contrast, policy competition refers to the achievement of improved outputs and outcomes of regional policies, and actors are less motivated by immediate gains in resources, but by the recognition of their policy performance. While gain in economic competition among regions (as locations for tax payers) depends mainly on the behaviour of external actors, namely the decisions of mobile firms and of policy-makers in other regions, policy competition aims at the agreement by actors inside the region, like voters or partners in cooperation. In a nutshell, in economic competition, regional actors behave like entrepreneurs in the market and try to sell their region as location; in policy competition they behave as political actors trying to get approval for their decisions.

Policy competition, like every kind of competition (Nullmeier 2000), requires that success or failure is defined in comparison with other regions (benchmarking; Salmon 1987). However, in contrast to economic races for tax payers, which compel regions to compare their

situation with alternative locations when they deal with external actors (because these external actors confront them with alternatives), incentives in policy competition depend mainly on intraregional structures and processes in which policies are made. It is not the ranking per se, but the reaction to a ranking by citizens, parliaments, partners in networks or in cooperation that is decisive for regional policy-makers. As a consequence, actors first and foremost must mobilise internal support and they have to solve internal conflicts of interests in order to gain support. For this reason, they have no direct incentive to compare their decisions or programmes with those of other regions. In economic competition, comparison can be used by policy-makers in a region to increase pressure to implement a policy, whereas in policy competition comparison implies the risk that deficits cannot be concealed and have to be revealed in public. Hence, while in the field of economy the market enforces comparative orientations, a self-enforcing mechanism encouraging comparative orientations does not work in policy-making at the regional level. Support or agreements can be achieved simply by improving the status quo and this can be justified by a comparison between present and future situations of the individual region concerned. Therefore, if competition for policies (best practices) should lead to innovation and better performance regarding standards or policy goals, comparative (interregional) orientations have to be generated. As a rule, competition for better practices and procedures for comparative evaluation have to be organised and guided by a central organisation, if there is not a widely accepted standard to evaluate the quality of policies valid for all regions. Moreover, in order to induce policy improvements, processes of mutual learning have to be stimulated which requires intense exchange of information between regions.

Table 1: Economic and policy competition between regions

	economic competition (regions as locations)	policy competition (regions as arena for policy- innovation)
<i>background</i>	deregulation, decentralisation	amendment of interregional coordination
<i>basic objective</i>	economic growth	better practices
<i>relevant improvement</i>	input	output
<i>incentives (achievement depends on ...)</i>	external actors/ resources	approval by internal actors
<i>comparative orienta- tions</i>	self-enforced	unsure
<i>institutional structure</i>	market, decentralisation, regional autonomy	government central guidance, interregional communication

3. Why policy competition can fail?

The fact that in quantitative terms we observe a rise of governance by competition does not necessarily imply that regional governance is significantly affected by this change in multi-level governance. On the one hand, it should be kept in mind that old governance modes persist and play a significant role in regional policy. On the other hand, the practical effects of policy competition are all but evident. Available research (Wiechman, Löw and Kaether 2004) gives reason to carefully assess its impact. In order to have effects policy competition has to meet

certain conditions, with the most relevant of them depending on structures of regional institutions and politics as well as on established structures of multilevel governance.²

Independent from structures and patterns of interactions among actors in regional and multilevel governance, we have to consider some general conditions, the process of policy competition must fulfil. In competition among regions the three *basic prerequisites* defined above may be problematic

Firstly, regions may lack the autonomy and capacities to succeed in competition. Theories of endogenous development and regionalisation assume that regions can profit from exploiting its particular economic, social, cultural or ecological assets. However, this is only true if these assets have an effect for regional development independent on external developments or grants. Moreover, regions can fail to achieve better practices and competitiveness if they have not the necessary competences or effective institutions. More often than not, policy competition in regional policy aims at the same time at particular policy goals – like, e.g., sustainable development – and at increasing autonomy either by searching for specific regional assets or by building institutional capacities. This way competition turns out as a rather demanding challenge.

Secondly, as explained above, competition requires that actors compare their own performance with those of competitors. This is all but a trivial task. On the one hand, policy competition is constrained – like economic competition – by the differentiation of the regional level. If this mode of governance affects regions which are not comparable, it is doomed to fail (Salmon 1987). Of course it does not make sense to compare city regions and rural areas, but even each of these categories includes regions with different starting conditions or different development potentials. On the other hand, comparison among competitors is often difficult since precise yardsticks are rarely available. To find acceptable criteria for evaluation is often a delicate task. If central governments maintain to follow objective standards and engage experts to evaluate regional practices, they often raise scepticism among the affected regional actors. If, on the other hand, standards and evaluation are worked out in political

² The following is influenced, besides theoretical reasoning, by first empirical evidence we gained from a research project on the impact of the programme “Regionen aktiv” on regional governance in rural areas. The research is funded by the German Ministry for Consumer Protection, Food and Agriculture. Since we have not finished the empirical research yet, I can only present hypotheses.

processes, the final result may be easily disputed by the losers in competition. Thirdly, by comparing policies between regions, regional actors risk that they get negative ratings. Even what is accepted in a region as adequate can be revealed as policy of a lower quality. And losing in a competition can cause frustration among those engaged cooperation and networks.

Even if these problems of interregional comparison can be solved, policy competition does not necessarily arise in decentralised regional politics. While comparison of competitors among alternatives is a self-enforced process in the market (even if comparison implies costs), actors competing for best practices in governments or regions are not automatically induced to pursue comparative action orientations. In general, they tend to avoid transparency against those to whom they are accountable (Kuhlmann 2003: 125). Policy competition and interregional comparison implies the chance that performance of a regional policy is ranked low and thus declared as poor even if it has been accepted by citizens inside the region. Even those actors willing to innovate run the risk to fail and to produce more costs than benefits (Rose Ackerman 1980).

Practical experiences prove that policy competition can work despite these difficulties. Regions took the chance to increase their autonomy and to focus their capacities on particular development potentials. Comparative evaluation is accepted if made by renowned experts or independent councils including all relevant interests. And the willingness to participate in competition for better practices is often stimulated by fiscal grants. Nevertheless, the impact of competition on regional policy-making is influenced by institutions, routines and rules of the political process. They can generate action orientations that usually are more important than those caused by new modes of governance, in particular if the latter do not continue for a longer time period.

Policy competition usually aims at changing *regional governance*. However, internal mechanisms of politics and entrenched structures can impede interregional competition. The following features of regional governance seem to be particularly relevant:

- Firstly, established networks often support “group think” (Janis 1972). They induce actors to mutually confirm their knowledge and values. Networks may also be predominated by professional norms. In both cases, it is difficult to motivate actors to question or revise their policies by comparing it with alternative practices in other regions.

- Secondly, intense conflicts among powerful actors in a region are unfavourable for policy competition. In this case actors first of all have to deal with their internal problems. Not only is it unlikely that they are willing to enter interregional competition as long as internal competition predominates, they also tend to disagree about the comparative evaluation of the policies and the performance of their region.
- Thirdly, party competition in regional politics works against interregional orientations. Elected politicians and policy-makers in leading administrative positions usually evaluate policies in terms of party ideologies rather than by comparing them with best practices or performance standards. This is in particular true if parties at the regional level are integrated in a coherent national party system, as it exists in the Federal Republic of Germany. Party politics is a decisive factor explaining why policy competition among the German *Länder* is not very intense even in areas where the *Länder* governments decide autonomous on political issues. In regions existing below the *Länder* level, we usually find weak political institutions (with directly elected parliaments being the exception), and policy-making is not predominated by party politics. Nevertheless, even at this level there are indications that actors regard the success in party competition as more important than the success in interregional policy competition.
- Fourthly, in order to succeed in policy competition regions need strong leaders and an effective management. The latter have to cope with the often complicated evaluation procedures while leadership is essential for promoting change. As both functions overlap, there is the danger of conflict which can undermine the competitive advantages of a region (Benz et al. 2000: 135-136).
- Finally, changes in regions are path-depend, i.e. they are constrained by standard operation procedures, by power structures entrenched in institutions or practice, or by petrified cognitive or normative frames of references. What we observe in Germany is that regions still expect central governments to support them by allocating money and they still regard regional policy as a kind of welfare policy. Thus, despite all pleas for regional autonomy, they approve a paternalistic approach of regional policy and only reluctantly accept the idea that, instead of rule compliance, good performance will be rewarded.

In addition to these difficulties inherent in regional governance structures, the *institutions and standard operation procedures of multilevel government* may counteract the effects of policy competition. Again the German case provides a good example for revealing the problems:

The most important constrain to interregional policy competition is caused by the federal institutional framework and the persisting practice of intergovernmental relations. Referring to the principle of equivalent living conditions in all parts of the country and following a practice to avoid redistributive decisions (Scharpf, Reissert and Schnabel 1976), German *Länder* governments expect that they participate in regional competition on an equal basis. When federal ministries select regions after competitive bidding, they have to take care of these rules and see to it that every *Land* has at least one awarded region. Furthermore, the organisation of policy competition among regions by the federal government is met with resistance by the *Länder* governments who fear that their competences are curtailed by this new mode of governance. They claim that decisions have to be taken in accordance to existing institutions or procedures of joint policy-making. However, the Joint Tasks relevant for regional policy (regulated in Art. 91a of the German constitution) prove to be inadequate to renovate multilevel governance and to shift to competitive policies. This is the reason why, so far, regional policy competition is practiced by experiments and is not based on a stable institutional basis.

The framework of intergovernmental relations in Germany implies a second feature that has a more positive effect on policy competitions. At all levels of governments and between all sectors of government and administration, dense intergovernmental networks exist. This is in particular true at the *Land* level but also at the level of sub-*Länder* regions in agglomerations and in rural areas. These interregional networks have ambivalent consequences. On the one hand, they facilitate the exchange of information and contribute to generate comparative action orientations. In addition they stimulate and accelerate the diffusion of innovation (Schmid and Blancke 2001) which is decisive for turning competition into a mode of coordination between regions. On the other hand, interregional networks can work as coalitions against central government and as cartels in competition. We have reasons to assume that interregional networks vary and so does their effect on policy competition. Networks between the sub-*Länder* regions are rather loosely coupled and usually only include the managers of the regions while excluding representatives subject to party politics. They provide structures

for intense communication on comparative performance and best practices. In contrast, inter-administrative relations between the *Länder* governments counteract policy competition as they include actors that are responsive to party governments or serve as coalitions against federal involvement.

Under these structural condition, governance by policy competition has not yet substantively modified the federal system in Germany – and the same holds true for multilevel governance and regional policy the EU. It should be regarded as an innovative element in multilevel governance which deserves attention even if it is still used selectively and in a discontinuous way. But up to the present we have no indications that policy competition between regions break up established power structures in the political system. It is even an open question, in which way it may affect governance in the regions.

4. Improving policy competition for sustainable development

So far I have pointed out problems that can arise in policy competition. This critical analysis should not lead us to ignore the advantages this mode of governance has compared to traditional governance by regulation or the allocation of grants. Regarding sustainable development, these advantages are even more obvious. Competition for better practices can contribute to:

- solutions adjusted to particular situation of a region: regions are motivated to search for their specific “assets” and focus on their particular problems;
- mobilisation of information, available in decentralised institutions and networks;
- innovative policies: competition is the best way to stimulate learning in regions;
- integrated policy: sustainable development requires an adequate balance between ecological, cultural, social and economic goals, which can only be realised at the regional level;
- balance central guidance and control and regional autonomy;

- accountability of actors against democratic institutions and citizens, because policy competition compels actors to reveal their preferences and their performance.

For this reason, the question is not which alternatives to policy competition are available but how policy competition can be improved in practice. Without claiming to provide solutions for all problems exposed in the preceding section, the following suggestions can be derived from the analyses (some of the ideas stem from experience and adjustment of proceedings in “*Regionen aktiv*”):

- Comparability and frustration of losers can be avoided, if policy competition is organised for different categories of regions. These categories can, e.g. reflect variation in capacities of regions, of economic or environmental conditions or other factors that cannot be altered in short term. What should be avoided is to combine regions in leagues of different levels of performance, as this implies negative labelling and is likely to reduce ambitions of lower ranked groups.
- The problem of lacking capacities or autonomy and negative incentives for losers can be reduced if not the absolute quality of performance, but progress in innovation or improvements are awarded. For imbalanced competition, Pierre Salmon concludes that “it is change in rank-order rather than rank order itself that counts” (Salmon 1987: 40) However, it should be considered, that this recommendation requires more information about changes. Interregional comparison then might become more complicated.
- The motivating effects of policy competition may increase if comparison does not end in a ranking of all regions but in selecting only the best or the most innovative ones. This way, competition is turned into a mechanism to generate innovation and learning. Winning a competition brings a much higher reputation and is regarded as more important, and competition can attract more attention even if party competition prevails in a region.
- In cases that failure in a competition is obviously caused by limited capacities or a region, losers are to be supported by special programmes. Otherwise policy competition can contribute to increasing regional disparities.

- Policy competition should focus on really salient issues for regional development. Only this way they can have an impact on entrenched power structures, close networks locked-in in a narrow development path or on actors influenced mainly by party competition.
- Competition may stimulate innovation in some regions, but in order to achieve policy goals of a central government and improvement in all regions, best practices have to be communicated. Diffusing of innovation should be regarded as essential task in governance by policy competition. More often than not, actors involved in competition for better practices join in networks in order to exchange experience. But diffusion of innovation is not guaranteed and can fail due to structural constraints. In this case central institutions organising policy competition have to see to it that information about best practices is distributed and that exchange of experiences emerge.

Given the current state of research, we should be careful in evaluating policy competition as ideal approach to multilevel governance in regional policy. On the other hand we should not ignore the chances this approach provides for learning and innovation in political systems in general and policy-making in particular.

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