



## Industrial Policies and Institutional Sustainability. the Case of Inner Areas in Italy

---

Fabio Musso and Gaetano Fausto Esposito

EasyChair preprints are intended for rapid dissemination of research results and are integrated with the rest of EasyChair.

June 15, 2018

# Industrial Policies and Institutional Sustainability

## The case of Inner Areas in Italy

Fabio Musso<sup>1</sup> [0000-0002-5189-2956] ✉ and Gaetano Fausto Esposito<sup>2</sup>

<sup>1</sup> Carlo Bo University of Urbino, Italy

fabio.musso@uniurb.it

<sup>2</sup> Consorzio Universitario di Economia Industriale e Manageriale and Assocamerestero, Rome, Italy

gfesposito@assocamerestero.it

**Abstract.** The principal aim of this study is to develop a model for analyzing and assessing industrial policies based on the concept of institutional sustainability. Institutional sustainability should inform public policies in order to improve the productive structure of a country or a region, thereby contributing to its economic and social development. For this purpose, a two-step assessment model has been developed and tested on a case study. The case analyzed is that of the inner areas in Italy, for which a development strategy has been planned at the national level. Results show an influence of the institutional system on market functioning and also the influence of a dominant culture in favor of institutional mechanisms, which are still affected by individualism and closure to collaborative market relationships. Based on this analysis, the main measures to be implemented in the case analyzed have been identified, with the objective of stimulating the expansion of business opportunities, improving market functionality and thus reducing delay in the industrial development.

**Keywords:** Industrial Policy, Regional Development, Planning Policies, Entrepreneurship, Institutional Sustainability.

## 1 Introduction

One of the effects of the recent cycle of economic stagnation has been the return of attention to industrial policies (Aghion, Boulanger, Cohen 2011). Compared to the tendency – typical of the neoclassical thought – to interpret these actions as a form of market distortion, the events of recent years in the global economy show that market failures are at least as dangerous as government failures. Several authors (Stiglitz, Lin, Monga 2013; Greenwald, Stiglitz 2013) stated that by a proper use of public policy tools, the negative effects of economic stagnation could be reduced. The debate of the last years has been developed on two sides:

- demonstrate that industrial policies and policies for competitiveness are not in contrast – the latter seen as actions to reduce all possible obstacles to the free expansion of markets (OECD 2009) – to the point that industrial policies can strengthen the

impact of policies for competitiveness (Aghion et al 2012, Agion, Boulager, Cohen 2011);

- highlight the link between institutional structures and industrial policies, by examining not only the results of interventions, but also the paths followed to achieve results (Rodrik 2008, Rodrik 2004).

According to this view, industrial policies should be seen as strategies to achieve objectives that go beyond the growth of gross domestic product (Aiginger, Böheim 2015). Among these objectives is the promotion of a sustainable development, which can be the result of an institutional strategy (Hausman, Rodrik 2006; Hausman, Rodrik, Velasco, 2008; Rodrik, 2004).

The objective of this paper is to develop an analysis model of industrial policies based on the concept of institutional sustainability that should inform institutional policies in order to provide a contribution for improving the productive structure of an area or industry. In this sense, the concept of sustainability has not been sufficiently developed, being generally associated with a complex dimension that combines environmental issues (quality maintenance and reproducibility of natural resources), economic issues (ability to generate income and employment) and social issues (ensuring conditions of human well-being and reduce inequalities). The wide literature on this subject (Pfahl 2005; Coblenz 2002; Brinkerhoff, Goldsmith 1992) mainly concerned the concept of environmental sustainability, as well as that of economic and financial sustainability. Less attention has been paid to the concept of institutional sustainability.

Previous studies did not seize the wideness of links between institutions and development processes, especially in the case of industrial policies. If the aim of a public policy is to enable the transformations of specific industries or geographic areas, it is firstly necessary to check the existing conditions characterizing such industries or areas in order to verify if they allow pursuing the objective. Indeed, setting the institutional action with the objective of balancing various interests and coordinate human actions is not sufficient (Pfahl 2005, p. 84). Several factors come into play, among which is the ability of institutions to address egoistic behaviors towards a common interest. According to this approach, what must be avoided is that once the initial stimulus has stopped, the process stops, or even have opposite effects.

Recent studies (Easterly 2005; Rodrik 2010; Rodrik, Subramanian 2003; Stiglitz, Lin, Monga 2013) have emphasized that "dropped from above" industrial policies, without enhancing the existing endowment and the behavior of individual actors, and which ignore the history of the single contexts and people, may risk of having harmful effects. The risk is that of expanding the gap between more advanced areas and less advanced ones, not only in terms of income, but also of business opportunities and social conditions (Esposito, Musso 2016).

For our purposes, we define the institutional sustainability as a self-sustaining circuit in which the institutional frame (historically established) enables the deployment of individual freedoms / abilities to grasp the opportunities offered by the market, modeling itself in a manner consistent with the nature and degree of evolution of these opportunities.

Accordingly, the institutional sustainability of industrial policies can reduce the "inequalities of opportunities" (Rothstein, Ulaner 2005, p. 42) that is the possibility (and expectation) to progress both economically and socially. This perspective emphasizes the close connection between institutional policy and the development of entrepreneurial freedom, with the objective of increasing growth opportunities, on one side, and improving the access to tangible and intangible resources, on the other (Bjørnskov, Foss 2012; Mogollón, Casero Diaz, Diaz Aunió n 2010; Belasen, Hafer 2013; Esposito, Spirit 2013).

Therefore, sustainability can be considered as an ongoing process, rather than as a static situation (Brinkerhoff, Goldsmith 1992; Coblenz 2002). As a social process it involves a variety of dimensions.

This contribution is inserted in the area of studies that criticizes the use of general intervention models regardless of local situations, and stresses the need to define analysis schemes in order to identify priorities for action and promote better functioning of the market in well-defined situations (Rodrik 2015; Rodrik 2010; Hausmann, Wagner 2008; Hausmann, Rodrik, Velasco 2008). Thus, the pursuit of the institutional sustainability must be assessed with reference to specific conditions, which are influenced by local factors (economic, social, and cultural) that change over time, including the role of the market itself (Esposito, Musso 2016).

There is a continuous interaction between types of institutional frames, on one side, and the capacity / freedom to exploit the potential offered by the market, on the other. It is important, in such a context, that institutional actors avoid the risk to become "extracting" institutions, i.e. transforming the added value created into a parasitic revenue (Acemoglu, Johnson, 2005). At the same time, it must be avoided the creation of a dependency condition that requires continuous and indeterminate external intervention.

In the following paragraphs, we will focus on the relationship between institutions, entrepreneurial freedom and market, to outline the concept of institutional sustainability for industrial policies and identify a proper assessment model. The specific case of a policy strategy will be then analysed and assessed in the light of the model proposed.

## **2 Institutions and market. A literature review**

With the term institutions, we mean the frame (both formal and informal) that draws the rules of the political, economic and social interaction for all societies (North 1991 p. 97; Trento 2012 p. 36; Spangenberg 2002 p. 107).

Institutions can be divided into formal institutions and informal institutions (North, 1991). Formal institutions are established by governments and fix the "rules of the game". The fundamental concepts of liberal capitalism, such as private property and its protection, are based on this structure, which allows market exchanges, investments, technological innovation and entrepreneurship (Acemoglu, Johnson 2005). Informal institutions do not arise as a result of an external system of rules and they are characterized by a high level of flexibility and adaptability, being the result of local knowledge based on experience, which brings to social and moral norms.

Social norms are not oriented to a specific result; they stem from approval or disapproval processes and are the result of social shared values (Elster 1989, p. 100). They can be seen as a reaction of the society to compensate for market failures and enable the achievement of a more efficient condition (Arrow 1970, p. 20). However, they are not usually evaluated in their contribution to produce income or consumption (Hirschman 1983, p. 38). The more institutions – even those more formal – are close to the common awareness, the more their sustainability and their ability to function as stable rules will be enhanced (Esposito, Musso 2016).

Alongside social norms are moral norms, associated with well-defined cultural bases. In the case of moral norms, there is no social sanction in case of violation, but the failure in complying them results in a sense of guilt of the offender (Bruni, Zamagni 2015, p. 42; Altobelli, Esposito 2014, p.14). They are internal rules that push people to conform to virtuous behaviors, followed not because of fear of other people's disapproval, but for specific belief.

Institutions play an essential role for development, because they are the cumulative result of a continuous learning process, mediated by the culture of a society (North, 1994, p. 360; Jones, Romer, 2009, p. 25), through an ongoing process (Hall, Sobel, Crowley 2010).

Culture can be defined as a setting of social norms, convictions and beliefs of individuals, which favor social harmony and represent the focus of repeated social interactions (Greif 1994, p. 915).

Others scholars (Guiso, Sapienza, Zingales 2006, p. 23; Fernández, Fogli, 2009, p.147) define culture as concerns, beliefs, preferences, values that ethnic, religious and social groups transmit from generation to generation, with adjustments dictated by historical contingencies. Indeed, culture influences identity and the sense of belonging of a people, affecting interactions with others (Akerlof, Kranton 2000; Akerlof, Kranton 2005). In this sense, culture has an influence on entrepreneurship and the degree of cooperation / interaction between businesses.

For our purposes, we can adopt the concept of culture proposed by Michael Porter (2000, p. 14): "culture expresses beliefs, attitudes and values that sustain the economic activities of individuals, organizations and other institutions". Values also refer to morality (Harari, Tabellini 2009; Tabellini 2008) of human behavior, as well as honesty and fairness in business (Kahneman, Knetsch, Thaler 1986).

According to Williamson and Mathers (2011), we can identify four elements that interact with the economic behavior: trust, respect / esteem, self-determination (individual motivation) and obedience. These aspects drive social norms on economic and social relationships. They may have ambivalent effects on the role of informal institutions, and this must be taken into account when introducing metrics of institutional sustainability.

The historically established character of institutions affects the possibility of reproducing policy models in different contexts (Greif 1994; Boettke, Coyne, Leeson 2008; Dobler 2009; Rodrik, Subramanian, Trebbi 2002; Rodrik, Subramanian 2003). Well-functioning institutions in certain contexts and historical moments may not work in other contexts or moments (Williamson, Mathers, 2011; Williamson, 2009; Rodrik 2008; Tabellini 2006; Dobler 2009).

By the point of view of sustainability, two characteristics are common to institutions: the ability to facilitate (explicitly or implicitly) the decision making process related to political choices, and the ability to stimulate and support the putting into practice of decisions (Spangenberg, Pfahl, Deller 2002 p. 71). If the institutional system fixes clear rules, then it also enables the freedom of human behavior, being therefore a key incentive factor of such freedom (Easterly 2005, p. 30).

In the field of economics, institutions are typically considered for their ability to protect economic freedom, as a prerequisite for other forms of freedom (Bruni, Zamagni 2015, p. 115). Moreover, a capitalist system cannot exist without the recognition of private property and its protection. When the protection of property rights is weakened, an unproductive entrepreneurship is encouraged (Dohuan, Hennekson 2007), because investment in intangible assets (for which a protection is more difficult) are discouraged. Thereby opportunities for not productive (or "destructive") entrepreneurial actions increase (Baumol 1990). In addition, an adequate level of financial development and credit access promotes freedom for entrepreneurship, as well as a stable rate of inflation and an adequate monetary policy. Of particular note is the degree of openness to international markets, both for trade and investments, since the increased competition is a strong incentive for the optimization of the productive structure and innovation.

Entrepreneurial freedom must express itself not only in the start-up phase of a firm, but also in its growth. Therefore, it is possible to distinguish between constitutive freedom and evolutionary freedom (Esposito, Musso 2016).

Another factor of entrepreneurial freedom is the degree of regulation of the economy, which depends on the regulatory level: if the regulation is not strict an enforcement of entrepreneurial initiatives results; when the regulation increases the burden for businesses, and particularly for start-ups, increases (Bjørnskov, Foss 2012, p. 251; Nyström 2010; Rodrik 2004; Hausman, Rodrik 2003).

The concept of freedom is closely linked to the historical, social and economic environment, having the institutions different levels of effectiveness depending on the different context in which they operate (Boettke, Coyne, 2003 p. 14). Since an interdependence between policies and individual political positions exists (Hoff and Stiglitz 2004), it should be taken into explicit account the existence of "local" elements – such as lack of experience of a market economy, historical ties of corruption, strong tendencies towards self-interested behavior, etc. (Hoff, Stiglitz 2004, p. 754) – can counteract the institutional action.

The relationship between institutions and market is tight, and both are considered as faces of the same coin (Rodrik 2015, p. 330). According to the traditional approach, market is a kind of technical instrument to achieve – through a spontaneous coordinating action – a higher level of well-being, through the mechanisms of competition. However, the concept of market is a social concept (Trento 2012, p. 37), a place where impersonal actors meet and where actions, plans, processes, information / communications meet and compare themselves, by the use of price as a principal regulating tool. Even competition, which should be ensured by the market, is increasingly seen as a social construction, based on collective action justified by moral and economic principles (Steiner 2012, p. 78). Thus, market is a kind of social device to generate connec-

tions between people and between people and things (Steiner 2012, p. 84), and its structure assumes a network shape (Leibenstein 1968). However, as a network, the market has its rules and often rests on trust and the sense of belonging, unlike the supposed impersonality of economic actors.

The market itself cannot ensure a balanced process if information asymmetries or coordination failures emerge (Hausman, Rodrik 2006). In this case, the role of industrial policies can contribute to reduce such disorders, also pushing towards increasing business opportunities.

With reference to the role of institutions in influencing market mechanisms, Rodrik and Subramanian (2003 p. 32) propose a classification. At a first level are market creating institutions (such as those protecting the private property and introducing contractual laws), that are fundamental for the existence of a market. They guarantee the fundamental rights and ensure the respect of law. However, these formal institutions are not sufficient due to an increasing complexity and uncertainty. In order to ensure a proper functioning of markets, at least two other types of institutions are necessary: market regulating institutions, for the use of externalities and the reduction of information asymmetries, and market legitimizing institutions, to enable forms of social protection, reduce inequalities and manage conflicts.

By connecting what has been said about the role of institutions, it is possible to identify a framework (Table 1) to be used for defining institutional sustainability assessment modes.

When market freedom increases, it is necessary to switch from market creating institutions to market legitimizing institutions, in order to allow the transformation of market from a demand-offer matching tool to a knowledge circulation tool. This requires institutional rules, both formal and informal, in order to enhance opportunities for firms.

**Table 1.** Institutions and role of market for industrial policies to reduce inequality

Typologies of freedom	Typologies of institutions	Role of market
Constitutive freedom	Market creating	Tool for demand-offer matching
↓	Market creating + market regulating	Tool for demand-offer matching and knowledge circulation
Constitutive freedom + Evolutionary freedom	Market creating + market regulating + market legitimizing	Tool for knowledge circulation and comparison between actions and projects of individual and communities

### 3 A model for assessing industrial policies

Generally speaking, the literature on the assessment of institutional sustainability (Brinkerhoff, Goldsmith 1992; NORAD Programs 2000; Spangenberg 2002; Warwick, Nolan 2014) considers single measuring indicators, which evaluate the ability of an institution to achieve certain objectives. The focus is therefore on the institutional organization in relation to a specific purpose, only taking a part of the complex operation system of the institution (Spangenberg, Pfahl, Deller 2002, p. 75).

This approach has some limitations, since, on the one hand, it provides no information on the possibility that the objectives will be achieved in the long term, and on the other, it does not take into account the context and actors involved in the sustainability process (Pfahl 2005, p.87). Therefore, the verification of the role that the broader systems of rules (formal and informal, explicit and implicit, inclusive and extractive) play in structuring the human behavior is deactivated. The assessment procedures should then recognize the uncertainty and the difficulty in identifying causal links. For this purpose, the usual quantitative techniques demonstrated many limits and more qualitative tools, focused on the role played by institutions, are necessary (Warwick, Nolan 2014, p. 50).

A qualitative approach is not primarily addressed to examine the direct and immediate impacts of a certain institutional organization, but rather to consider the development of the decision making process and its implications (Pfahl 2005, p. 88). Therefore, the most recent analyses in this regard tend to include in the evaluation criteria issues such as the accountability, the participation, and the flexibility in ensuring the achievement of different interests of a society (Pfahl 2005; Spangenberg, Pfahl, Deller 2002).

All these issues bring to an assessment model similar to what we have outlined, characterized by a qualitative nature and a focus on processes. For the evaluation of policies, a two-step assessment process can be adopted:

- the first step refers to the preconditions, in order to verify if the industrial policy intervention can be successful by the institutional sustainability point of view;
- the second step refers to the types of action to be implemented to ensure that the expected impact of the policy will produce sustainable effects.

Table 2 outlines the elements that should be assessed when running a preliminary analysis of the institutional sustainability for industrial policies.

Starting from the objective of a sustainable industrial policy, it is necessary to check what is the current situation in terms of the ability to achieve goals (i.e. freedom) by the actors (firms), by looking at the current level of formal institutions and the type of culture (as a synthesis of informal institutions). At the same time, it must be checked the real possibility that market mechanisms can be activated (and at what level), and which is the best market structure to aim for, taking into account of the active support that institutions can provide for ensuring equal conditions to all the actors involved. The scheme places an emphasis in the evaluation of the features of institutional organizations: being the latter, on one side, inclusive, when they promote an extensive process of participation and when they tend to favor the constitution of open social groups. On the other side organizations are extractive when they reduce participation, promote the



formation of closed social groups and, as a result, they build or consolidate privileged positions, transforming a social profit into a rent.

The characters of inclusiveness or extractivity of organizations is closely linked to the three aspects mentioned by Rodrik (2008, p. 19), which should be considered when designing the institutional role: the attention paid by policies to social issues; the contrast to bureaucratic behaviors to avoid unequal market conditions, and; a strict accountability of interventions.

The proposed scheme assesses whether there are ex ante conditions that can allow a self-sustainability of the intervention, without counting on continuous external support. The assessment can be expressed in qualitative terms and it can be used to identify the intervention boundaries.

**Table 2.** Preliminary analysis scheme (check list) of institutional sustainability

Assessment of the current status of the capabilities / freedom of economic actors		Stage and level of functioning of the market		Institutional factors	
	Score		Score		Score
<i>Constitutive freedom</i>				<i>Organizations</i>	
a) Freedom of entrepreneurial discovery;	.....	Tool for comparison between prices and opportunities.	.....	- Inclusive	.....
b) Freedom to cooperate, associate and connect to networks;	.....	Tool for comparison between prices, knowledge circulation and best practices.	.....	<i>Institutional mechanisms</i> (formal rules structuring and addressing individual and collective behavior)	
c) Freedom of full use of the market.	.....			- Inclusive	.....
<i>Evolutive freedom</i>				- Extractive	
a) Freedom of equal access to strategic production factors (human capital, knowledge, energy, logistics and finance);	.....	Tool for learning and comparison between projects and actions of individuals and communities.	.....	<i>Informal institutions / culture</i> (social and moral norms that inform individual and collective behavior) <i>stimulating:</i>	
b) Freedom of being involved into growth drivers (internationalization, innovation, etc.).	.....			- Confidence	.....
				- Respect and esteem	.....
				- Self-determination	.....
				- Obedience	.....

In case of positive result of the analysis, it is necessary to decide which are the most appropriate policies to guarantee a continuing (and self-sustaining) process. Otherwise, it should be decided if continuing the existing policy or making it in other directions, following a "try an error" path, which is increasingly emerging in the field of policies for development (Rodrik 2010).

For example, if the characteristics of the local culture, in terms of trust, mutual respect and esteem, self-achievement, etc., are antagonistic to a market improvement process, formal institutions will fail to affect the context. In this case, the preconditions for an institutional sustainability will be lacking. However, it may also happen that a strong presence of specific conditions, that theoretically could positively influence the market development, can on the contrary act as a brake because of a particular local situation. This is the case of an excessive degree of mutual trust within an economic-social network, which could lead to relationships that are closed to other operators, and it would therefore represent a barrier to market opening policies. In such situations, it may be convenient to keep temporary market control measures.

Once the analysis of the institutional sustainability preconditions has been completed, a framework to define adequate actions can be used, with the aim of expanding freedom and capacity building. This scheme (which takes up what has been developed by Esposito and Spirito (2013, p. 199) is described in Table 3.

According to the taxonomy of Rodrik and Subramanian (2003), Table 3 indicates the institutions that can support and sustain the different types of skills / freedom, bringing to a market development. They are not institutions to be established ex-novo, but rather the existing institutional support should be primarily enhanced, making it evolve to the desired direction.

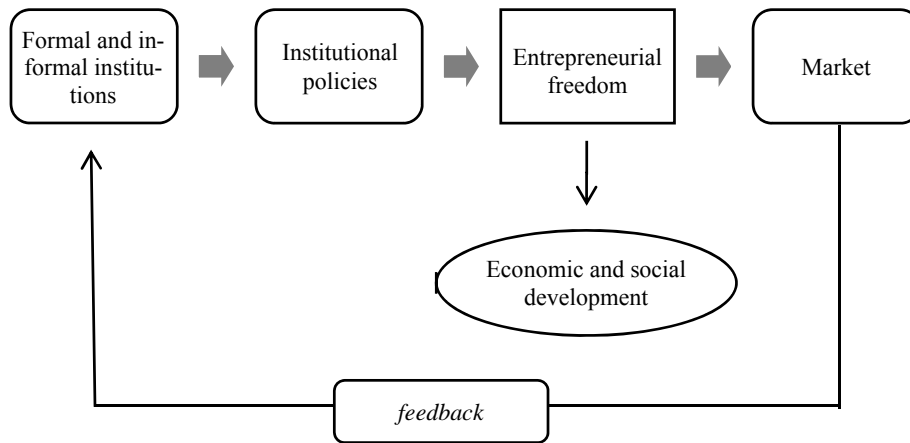
**Table 3.** Scheme for institutional interventions according to the policy strategy

Type of freedom / development for capabilities improvement	Institutions for guarantee protection and promotion of the market		
	Market creating	Market regulating	Market legitimizing
<i>Constitutive</i> a) Freedom of entrepreneurial discovery b) Freedom to co-operate, associate and connect to networks c) Freedom of full use of the market (citizenship in the market)			
<i>Evolutive</i> a) Freedom of equal access to strategic production factors (human capital, knowledge, energy, logistics and finance) b) Freedom to be inserted within growth drivers (internationalization, innovation, etc.)			

The ultimate goal is to try assessing how the institutional support will strengthen the industrial policy, improving the ability of the market to act as a development environment (see Table 1). In particular, it is necessary to consider the existence of feedback processes from the market to institutions, triggering a self-sustaining process of social and economic development (Fig. 1).

In our research, the analysis model proposed has been verified by analyzing a specific case of a planning policy aimed at stimulating the economic recovery of disadvantaged areas. The case chosen was that of the Strategy for Inner Areas adopted by the Italian Government as a national plan that was designed with the objective of producing a development process whose duration would go beyond the period of the intervention.

Since the focus of this analysis is on industrial policies, no social, demographic and environmental aspects, and related factors, will be considered at this stage. However, they should be taken into account in a wider analysis for an overall development strategy.



**Fig. 1.** The institutional sustainability process for industrial policies

#### 4 The Strategy for Inner Areas in Italy

The Italian territory is characterized by a polycentric system, with cities, rural areas and municipalities linked by a sound network of relationships, on one side, and large towns and cities, which attract people because of their offer of employment in industrial and tertiary sectors and the provision of public services, on the other. The opportunity to access essential services like education, mobility and health care is critical to ensure an adequate level of citizenship among the residents in inner areas.

Inner or inland areas are defined as substantially away from the cities that offer essential services and, therefore, characterized by decrease in population and degradation. Demographic trends, access to health care and the provision of appropriate education

are just some of the essential criteria for defining and classifying inner areas. These areas currently include 53% of Italian municipalities (4,261) and are home to 23% of the population (almost 13.540 million people, according to the 2011 census), and account for about 60% of the Italian territory (Uval, 2014). Inner areas in Italy are characterized as follows:

- are at a significant distance from the main service centers (education, health and public transport);
- contain major environmental resources (water, agriculture, forests, natural landscapes) and cultural resources (archaeological sites, historic settlements, abbeys, small museums);
- are highly heterogeneous, being the result of both differentiated natural systems dynamics, and historical anthropization processes.

Remote rural areas have historically been deprived of many services and they have experienced a long period of steady abandonment in favor of urban areas. As a result, high social costs in terms of hydro-geological instability and deteriorating soil conditions occurred. The population decline has been accompanied by a reduction in services to people and a weak functioning of market mechanisms. Because of this situation the opportunities for businesses and the degree of entrepreneurial freedom are very low if compared to those of urban areas. However, inner areas contain a great potential in terms of natural resources and human capital, and they are seen as a strategic resource for the growth of the whole Italian economy. For these reasons, the development of inner areas is considered a national issue, also because the social costs associated with their dropout rates are particularly high. Interventions designed to preserve and revitalize inland areas are then necessary to overcome the gap with urban areas.

The National Strategy for Inner Areas (NSIA) was designed in 2014, relying on the financial support of the Community grant program for the seven-year period 2014-20, along with dedicated funding provided by national laws. The project was carried out in close interaction with the Regions and an intense dialogue with Municipalities and Provinces, taking into account that local communities have a fundamental role in the development of a national strategy.

At the center of the NSIA is the quality of life of people, by improving the welfare of the inhabitants and, at the same time, increasing the level of social inclusion, the latter considered as a mean for reducing inequalities in terms of wealth and development opportunities. In short, the strategy has five medium-term objectives (Uval, 2014):

1. improving wellbeing of local populations;
2. increasing labour demand (and employment);
3. increasing the use of territorial capital;
4. lowering social costs of de-anthropisation;
5. bolstering local development factors.

Growth and social inclusion are mutually interdependent. Summarizing the ultimate objective, a reference point of the strategy is to reverse and improve demographic trends (cutting emigration from these areas; attracting new residents; raising the birth rate).

These outcomes and the land use recovery, in particular, are what will serve to counteract the hydrogeological instability and the degradation of the cultural capital in the inner areas.

The above five mid-term objectives can be pursued through two types of action (tools), each of which has a national and a local dimension. The two types of action are:

- upgrading the quality/quantity of essential services provision (education, health, mobility, connectivity);
- promoting local development projects.

As regard the second point (local development projects), it should be kept in mind that every inner area has some kind of diversity to offer: lifestyle, air quality, food and human relations. Interventions for triggering development processes need to focus on these specificities, therefore for each geographical area focal points of development must be identified among the following (Uval, 2014):

1. local communities and territory;
2. natural, cultural and sustainable tourism resources;
3. agri-food systems and local development;
4. energy saving and local renewable energy networks;
5. manufacturing know-how and craftsmanship.

The package of interventions will be formally recognized by appropriate Framework Agreements to be signed between local Municipalities, Regions and Central Government.

At the current stage, the strategy is rolling out with pilot projects on a limited number of areas, one per Region. It is operating through two interrelated classes of funding: European funds, and Regional/National funds for ensuring adequate public provision of financial support. Planning packages will be put together onsite and therefore the prime actors are the territorial communities and their regional contacts. They will only become wider ranging where there is a powerful strategy, real intent and national scope.

In order to ensure effectiveness and sustainability of the strategy, a binding time frame has been established, with a careful monitoring of the outcomes and comparison of the experiences and outcomes by a project coordinating network.

All the objectives will be measured at pre-set intervals by one or more performance indicators and related target values. The correct tie-in between the expected outcomes of the Strategy, the expected results of the programs and the expected results of the individual Area Projects must be achieved. All Area Projects are expected to provide an ongoing Assessment

Relaunching Inner Areas naturally means relaunching local systems as production areas, which requires consolidated demand for locally produced goods and services. Demand is a fundamental development factor, and national and European policies have a decisive role to play in guaranteeing that this is sparked and remains steady.

## 5 The assessment model applied to the NSIA in Italy

The application of the assessment model proposed in this paper has been made with reference to the case of the Strategy for Inner Areas in Italy. This case is particularly significant because it represents a typical situation in which a sustainable development process is pursued. Indeed, this condition characterizes all those geographical areas with a delayed development, or those with structural disadvantages. For these areas, solutions that could bring to a self-sustaining process of development, without having to permanently dependent on government assistance, are required.

In order to pursue an effective development process over time, entrepreneurial opportunities should be accompanied by the strengthening of market mechanisms as a guarantee condition for "inequalities of opportunities" reduction (Rothstein, Ulaner 2005, p. 42).

The application of the model covers only the first of the stages considered – the preconditions assessment (Table 4) – being not yet implemented the design phase of the strategy. The assessment is made based on a qualitative approach in terms of evaluation of the intensity of each single item analyzed.

Despite the NSIA has not yet been developed, we have hypothesized the application of the second phase of the model by identifying possible policy tools to be adopted in the case analyzed (Table 5).

Therefore, Table 4 identifies the priorities for action, while Table 5 identifies the type of institutions and interventions for the exploiting market potential, according to institutional sustainability criteria.

After having analyzed the preliminary conditions, what emerges from the case analyzed is an influence of the institutional system on market functioning and also the influence of a dominant culture in favor of institutional mechanisms, which are still affected by individualism and closure to collaborative market relationships. This is a major obstacle to the development of sustainable policies. Facing this problem requires solutions characterized by the activation of processes that improve collaboration, inclusion and ease in market access. In addition, information flows and circulation of knowledge should be favored, so that a cumulative learning process could be activated and local values enhanced.

Based on the analysis in Table 4, we identified the main measures to be implemented in inner areas, with the objective of encouraging the expansion of business opportunities, improving market functionality and thus reducing disadvantages in the industrial development (Table 5).

**Table 4.** Preliminary analysis (check list) of institutional sustainability applied to the current condition of inner areas in Italy

Assessment of the current status of the capabilities / freedom of economic actors		Stage and level of functioning of the market		Institutional factors	
	<i>Score</i>		<i>Score</i>		<i>Score</i>
<i>Constitutive freedom</i>				<i>Organizations</i>	
a) Freedom of entrepreneurial discovery;	+	Tool for comparison between prices and opportunities.	+++	- Inclusive	++
b) Freedom to co-operate, associate and connect to networks;	+++	Tool for comparison between prices, knowledge circulation and best practices.	++	- Extractive	+++
c) Freedom of full use of the market.	++			<i>Institutional mechanisms</i> (formal rules structuring and addressing individual and collective behavior)	
<i>Evolutive freedom</i>				- Inclusive	++
a) Freedom of equal access to strategic production factors (human capital, knowledge, energy, logistics and finance);	+	Tool for learning and comparison between projects and actions of individuals and communities.	++	- Extractive	+++
b) Freedom of being involved into growth drivers (internationalization, innovation, etc.).	++			<i>Informal institutions / culture</i> (social and moral norms that inform individual and collective behavior) <i>stimulating:</i>	
				- Confidence	+
				- Respect and esteem	+
				- Self-determination	++
				- Obedience	+

+ = lowest intensity; +++ = highest intensity

The actions indicated are a mix of interventions on the areas of intangibles (such as human capital and entrepreneurial skills), finance (incentives) and infrastructures (transports, logistics and telematics), which fall into the more recent priorities of industrial policies, focused on improving the circulation of knowledge and the learning processes of enterprises (Greenwald, Stiglitz, 2013; Stiglitz, Lin, Monga, Patel 2013). At the same time, these interventions can contribute creating a cooperative climate between the institutional system and companies (Rodrik, 2008). All actions should be organized according to a medium-long term action plan, avoiding one-off measures that would not have a significant effect on sustainable development.

**Table 5.** Scheme for institutional intervention applied to the Strategy for Inner Areas in Italy

Type of freedom / development for capabilities improvement	Institutions for guarantee protection and promotion of the market		
	Market creating	Market regulating	Market legitimizing
<i>Constitutive</i>			
a) Freedom of entrepreneurial discovery;	<ul style="list-style-type: none"> <li>- Business incubators and Spin-off programs by Universities</li> <li>- Integrated programs for entrepreneurship development</li> </ul>	<ul style="list-style-type: none"> <li>- Information on the opportunities regarding production factors</li> <li>- Regulatory legislative interventions</li> </ul>	<ul style="list-style-type: none"> <li>- Training for entrepreneurship</li> <li>- Continuous training</li> <li>- Programs for generational turnover</li> </ul>
b) Freedom to cooperate, associate and connect to networks	<ul style="list-style-type: none"> <li>- Projects and legal frameworks for network agreements among firms</li> </ul>	<ul style="list-style-type: none"> <li>- Trade and industry associations</li> </ul>	<ul style="list-style-type: none"> <li>- Training programs for inter-firm co-operation</li> </ul>
c) Freedom of full use of the market	<ul style="list-style-type: none"> <li>- Regulatory legislative interventions for reducing bureaucracy and for legal management of disputes</li> </ul>	<ul style="list-style-type: none"> <li>- Finalized funding and tax credits</li> <li>- Access to bank credit</li> </ul>	<ul style="list-style-type: none"> <li>- Interventions on mobility infrastructures and intermodality</li> </ul>
<i>Evolutive</i>			
d) Freedom to be inserted within growth drivers (internationalization, innovation, etc.).	<ul style="list-style-type: none"> <li>- Supporting program for foreign market selection and international marketing promotion</li> <li>- Innovation projects in co-operation with Universities</li> <li>- Projects, for innovative start-ups</li> </ul>	<ul style="list-style-type: none"> <li>- Finalized funding</li> <li>- Support to e-commerce</li> <li>- Export and internationalization consortia</li> <li>- industrial property rights</li> </ul>	<ul style="list-style-type: none"> <li>- Broadband and ultra-broadband telematics networks</li> </ul>

## 6 Conclusions, limitations and future research

In this paper, we proposed a model for the assessment of industrial policies aimed at stimulating the economic development and entrepreneurship opportunities of the disadvantaged areas of a country. The model is based on a circular pattern (Fig. 1) which enhances the development of entrepreneurial resources within an institutional frame.



The model can be considered as a starting point to be further developed at both qualitative (making a distinction between the current status of an area/region and the expected status) and quantitative (by identifying specific indicators for the planned interventions) level. It is worth highlighting that this model aims at identifying well focused actions which could activate or re-activate market mechanisms, thus reducing inequalities and, at the same time, affecting in turn the institutions.

At this stage, the level of functionality of the institutions must be carefully assessed, taking into account the historical and local context. As a matter of fact, institutional models that can be effective and sustainable in every place and cultural context, do not exist, and each model must be adapted to the characteristics and the culture of each context.

Considering that the focus of the model is on active policies, the institutions on which interventions can be based are formal ones. Possibly, the way in which they operate within a social and moral context should be evaluated, in order to manage solutions that could be suitable for the specific context and maximize results.

The application of the model on the NSIA in Italy did not include the identification of the institutions to be involved. However, given the local level of most of the actions, we can hypothesize a primary role of local institutions, with a leading position of municipalities and unions among them, Universities, Chambers of Commerce and Regional Governments.

Those institutions that are more close to a territory are called into question, especially for market creating interventions, in order to stimulate cooperation among firms. The interaction between local, national and supranational institutions applies for market regulating and market legitimizing interventions, which often require a wide scale of action, and at the same time a firm closeness to enterprises' needs.

In any case, a general principle that has always to be respected in order to permanently activate the institutional sustainability process, as for Fig. 1, is the accountability of the actions, accompanied by a monitoring and evaluation process on ongoing effects.

When the first results of the single actions within the NSIA in Italy will be available, it will also be possible to make more accurate evaluations on the effectiveness of the project.

Once completed and improved, the model proposed can be useful to policy makers for defining complex strategies, particularly for their ex-ante and ongoing assessment. The possibility of separately analyzing the types of freedom to be developed, on one side, and the phases of development of market mechanisms, on the other, and then crosswise evaluate them, allows to accurately identify the purpose, recipients and the means of intervention for each measure of a policy strategy.

This paper has some limitations. Firstly, the application of the ongoing evaluation is missing, being the NSIA Italy not yet started. This made it impossible to verify and test the policies adopted.

Related to this issue is the fact that evaluation parameters have not been identified for an objective assessment of both the current conditions of an area, on one side, and the effects of the interventions to be identified, on the other. An objective assessment would allow a more strict application of the model

Even considering the limitations of this study, further research developments may relate to the definition of performance indicators to be applied to single actions.

Finally, in addition to the issues related to industrial policies, a further stage of analysis and model development could be that of extending the investigation to other areas of policymaking, such as social, environmental and those related to planning / control of industrial, commercial and housing settlements. In particular, as regards the social aspects, an important role is primarily played by health and education services, which especially in the case of inner areas are essential to ensure favorable conditions to prevent depopulation and stimulate the location or permanence of economic activities.

## References

1. Acemoglu, D., Johnson, S.: Unbundling institutions. *Journal of Political Economy* 5 (2005).
2. Aghion, P., Boulanger, J., Cohen, E.: Rethinking Industrial Policy. Bruegel policy brief, June (2011).
3. Aiginger, K., Böheim, M.: Fostering sustainable economic growth by redefining competitiveness and industrial policy: Towards a systemic approach aligned with beyond-GDP goals. *UN Global Sustainable Report 2015* (2015).
4. Akerlof, G.A., Kranton, R.E.: Economics and identity. *The Quarterly Journal of Economics* 3 (2000).
5. Akerlof, G.A., Kranton, R.E.: Identity and the economics of organizations. *Journal of Economic Perspective* 1 (2005).
6. Altobelli, C., Esposito, G.F.: Capitale fiduciario e sviluppo a livello regionale: un'analisi esplorativa del ruolo del capitale civico e morale. *Rivista di Economia e Statistica del Territorio* 3 (2014).
7. Arrow, K.J.: Political and economic evaluation of social effects and externalities. In: Margolis, J. (ed.) *The analysis of public input*. UMI, National Bureau of Economic Research (1970).
8. Baumol, W.J.: Entrepreneurship: productive, unproductive, and destructive. *The Journal of Political Economy* 5 (1990).
9. Belasen, A.R., Hafer, R.W.: Do Changes in Economic Freedom affect Well-Being? *Journal of Regional Analysis & Policy* 43(1), 56-64 (2013).
10. Bjørnskov, C., Foss, N.J.: How institutions of liberty promote entrepreneurship and growth. *Economic Freedom in the World 2012 Annual Report*, <http://www.fraserinstitute.org> (2012).
11. Boettke, P.J., Coyne, C.J.: Entrepreneurship and development: cause or consequence? *Advances in Austrian Economics* 6 (2003).
12. Boettke, P.J., Coyne, C.J., Leeson, P.T.: Institutional stickiness and the new development economics. *American Journal of Economics and Sociology* 2 (2008).
13. Brinkerhoff, D.W., Goldsmith, A.A.: Promoting the Sustainability of Development Institutions: A Framework for Strategy. *World Development* 20(3), 369-383 (1992).
14. Bruni, L., Zamagni, S.: *Economia civile*. Il Mulino, Bologna (2015).
15. Coblenz, J.B., *Organizational Sustainability: The Three Aspects that Matter*, paper presented at ERNWACA's First Strategy Session, Dakar (2002).
16. Dobler, C.: The impact of formal and informal institutions on per capita income. Working paper Institut für Volkswirtschaftslehre, Universität di Hohenheim, n. 319 (2009).

17. Easterly, W.: Reliving the '50s: The Big Push, Poverty Traps, and Take offs in Economic Development. Center for Global Development, Working Paper n. 65 August (2005).
18. Elster, J.: Social norms and economic theory, *Journal of Economic Perspectives* 4 (1989).
19. Esposito, G.F.: *Crede negli altri*. Aracne, Roma (2010).
20. Esposito, G.F., Spirito, P.: *La costruzione del capitale fiduciario*. FrancoAngeli, Milano (2013).
21. Esposito, G.F., Musso, F.: Institutional Sustainability of Industrial Policies for Inequalities Reduction at the Regional Level. *Annals of the University of Bucharest: Economic and Administrative Series* 10, 49-75 (2016).
22. Fernández, R., Fogli, A.: Culture: an empirical investigation of beliefs. *Work and Fertility*, *American Economic Journal*, 1 (2009).
23. Greenwald, B., Stiglitz, J.E.: Industrial Policies, the Creation of a Learning Society and Economic Development. In: Stiglitz, J.E., Lin, J.Y. (eds.) *The Industrial Policy Revolution. The Role of Government Beyond Ideology*. Palgrave-Mc Millan, New York (2013).
24. Greif, A.: Cultural beliefs and the organizations of society: A historical and theoretical reflection on collectivist and individualist societies. *Journal of Political Economy* 5 (1994).
25. Guiso, L., Sapienza, P., Zingales, L.: Does culture affect economic outcomes?, *Journal of Economic Perspectives* 2 (2006).
26. Hall, J.C., Sobel, R.S., Crowley, G.R.: Institutions, Capital and Growth. *Southern Economic Journal* 77( 2), 385-405 (2010).
27. Harari, M., Tabellini, G.: The effect of culture on the functioning on institutions: evidence from European regions. *CESifo DICE Report* n. 1 (2009).
28. Haussman, R., Rodrik, D.: Economic Development as Self-discovery. *NBER Working Paper* n. 8952 May (2003).
29. Haussman, R., Rodrik, D.: Doomed to Choose: Industrial policy as Predicament. *John F. Kennedy School of Government*, sept. 2 (2006).
30. Haussman, R., Rodrik, D., Velasco, A.: Growth Diagnostics. In: Stiglitz, J., Serra, N. (eds.) *The Washington Consensus Reconsidered: Towards a New Global Governance*. Oxford University Press, New York (2008).
31. Hirschman, A.O.: *Felicità privata e felicità pubblica*. Il Mulino, Bologna (1983).
32. Hoff, J.E., Stiglitz, J.E.: After the Big Bang? Obstacle to the Emergence of the Rule of Law in Post-Communist Societies. *The American Economic Review* 94(3), 753-763 (2004).
33. Jones, C.I., Romer, P.M.: The New Kaldor Facts: Ideas, Institution, Population and Human Capital. *NBER Working paper* 15095, June (2009).
34. Kahneman, D., Knetsch, J.L., Thaler, R.H.: The behavioral foundations of economic theory. *The Journal of Business* 4 (1986).
35. Mogollón, R.H., Juan Casero, J.C., Diaz Auni6n, A.M.: Economic freedom and entrepreneurial activity. Paper presented at the IV Global Entrepreneurship Research Conference, London, Sept. (2010).
36. NORAD (Norwegian Agency for Development Cooperation) *Programs: Handbook in Assessment Institutional Sustainability*, Oslo (2000).
37. North, D.C.: Institutions. *Journal of Economic Perspectives* 1 (1991).
38. North, D.C.: Economic performance through time. *The American Economic Review* 3 (1994).
39. Nystr6m, K.: Business regulation and the red tape in the entrepreneurial economy. *CESIS Electronic Working Paper Series* n. 225 (2010).
40. Pfahl, S.: Institutional sustainability. *International Journal of Sustainable Development* 8(1/2) (2005).

41. Porter, M.E.: Attitudes, values and beliefs and the microeconomics of prosperity. In: Harrison, L.E., Huntington, S.P. (eds.) *Culture matters: how values shapes human progress*. Basic Books, New York (2000).
42. Rodrik, D.: *Industrial Policy for the Twenty-First Century*. John F. Kennedy School of Government, Sept. (2004).
43. Rodrik, D.: Second-best institutions. *The American Economic Review* 98(2), 100-104 (2008).
44. Rodrik, D.: Diagnostic before Prescription. *Journal of Economic Perspective* 24(5), 33-44 (2010).
45. Rodrik, D.: *Economics Rules*. Oxford University Press (2015),
46. Rodrik, D., Subramanian, A., Trebbi, F.: Institutions rule: the primacy of institutions over integration and geography in economic development. *International Monetary Fund Working paper WP/02/189* (2002).
47. Rothstein, B., Uslaner, E.M.: All for All. *Equality, Corruption and Social Trust*. *World Politics* 1 (2005)
48. Spangenberg, J.H.: *Institutional Sustainability Indicators: An Analysis of the Institutions in Agenda 21 and a Draft Set of Indicators for Monitoring Their Effectivity*. *Sustainable Development* 10, 103-115 (2002).
49. Spangenberg, J.H., Pfahl, S., Deller, K.: Towards indicators for institutional sustainability: lessons from an analysis of Agenda 21. *Ecological Indicators* 2, 61-77 (2002).
50. Steiner, P.: *Introduzione alla sociologia economica*. Il Mulino, Bologna (2012).
51. Stiglitz, J.E., Lin, J.Y., Monga, C.: *The Rejuvenation of Industrial Policy*. World Bank, Policy Research Working paper n. 6628 (2013).
52. Subramanian, A., *The primacy of institutions*. *Finance & Development* June (2003).
53. Tabellini, G.: *Culture and institutions: economic development in the regions of Europe*, working paper (2006).
54. Tabellini, G.: *The scope of cooperation: values and incentives*. *The Quarterly Journal of Economics* 3 (2008).
55. Trento, S.: *Il capitalismo italiano*. Il Mulino, Bologna (2012).
56. Uval (The Public Investment Evaluation Unit): *A strategy for Inner Areas in Italy: definition, objectives, tools and governance*. *Materiali Uval Series n. 31* (2014), available at: [http://www.dps.gov.it/it/pubblicazioni\\_dps/materiali\\_uval](http://www.dps.gov.it/it/pubblicazioni_dps/materiali_uval).
57. von Mises, L.: *Human action. A treatise on economics*. Fox e Wilkes, San Francisco (1949).
58. Warwick, K., Nolan, A.: *Evaluation of Industrial Policy: Methodological Issues and Policy Lessons*. OECD Science, Technology and Industry Policy papers, No 16. OECD Publishing (2014).
59. Williamson, C.R.: *Informal institution rule: institutional arrangements and economic performance*. *Public Choice* 139 (2009).
60. Williamson, C.R., Mathers, R.L. *Cultural context: the productivity of capitalism*. Working paper (2011),.