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**SOCIAL CAPITAL  
AND LEARNING INSTITUTIONAL NETWORKS:  
MAKING SENSE OF SUBSIDIARITY  
IN EUROPEAN REGIONAL POLICY**

**ABSTRACT:** In this paper it is argued that the operationalization of the principle of subsidiarity implies the need for flexibility in the EU system of governance in order for an acceptable trade-off between efficiency and democratic guarantees in the policy-making process to be reached.

In European structural policy subsidiarity is seen as an important component of the system of multi-level governance which involves Europeanization of the policy-process on the one hand, and decentralization of decision-making to subnational level on the other. This system of governance implies mobilization towards the creation of regional economies capable of adapting to the changing environment, that is learning economies. The main prerequisite for development based on learning is the presence of learning institutional networks -institutional networks able to change with changing conditions- and social capital which facilitates the learning process within institutional networks. The presence of both learning institutional networks and social capital at the regional level can substantiate the role of subsidiarity as a principle of "**competitive federalism**", which is viewed as the future system of governance in EU. Within this system subsidiarity should not be seen as just a procedural criterion for delineating competences, but as an incentive for mobilization of civil society towards the achievement of higher levels of collective action, that is towards acquiring more power.

## 1. THE EUROPEAN UNION AND THE PRINCIPLE OF SUBSIDIARITY

### 1.1 From the Emergence of Subsidiarity on the European Political Agenda in the early 1970s up to its incorporation into the TEU

During the 1970s subsidiarity began to figure implicitly or explicitly in the debate within the EC. In this age of europessimism or eurosclerosis began to gain ground the view that the cause of the Community's malaise was not that the Commission had too much power but that it had too little. Committees set up to investigate the institutional problems, came up with the conclusion that the powers of the Commission should be increased, not decreased<sup>1</sup>. The first notable mentions of the principle occurred in the Commission's Report on European Union [CEC, Suppl. 5/75-Bull EC] and in the Tindemans Report (CEC, Suppl. 1/76-Bull EC), which were not acted upon and the principle of subsidiarity was not heard of until the early 1980s, when the European Parliament adopted a Draft Treaty establishing the European Union which never actually entered into force. Subsidiarity, even from this first substantive face of its development on the European political agenda began to reflect the complexities of the EC decision-making process. *While it was put forward to justify an expansion of the Community's competencies, it simultaneously supposed to be the appropriate ideological justification for limiting the Commission's room for manoeuvre.*

The adoption of the Single European Act (SEA) in 1986, brought out on the one hand anxieties that the EC takes on more powers than it can effectively discharge, and on the other hand fears that centralized authority in the EC will override valued and embedded distinctive practices or norms in the individual member states. The fear of a centralist drift, for the first time in the history of the Community, became more than a rhetorical statement for politicians [Dehousse, 1993, p.4]. In this context, the idea of assigning clear limits to the growth of Community powers rapidly gained ground and the SEA contained the first direct reference to the principle of subsidiarity (art.130r, environment). In the Resolution of the European Parliament, in 1990, the incorporation of subsidiarity was stated to be conditional upon the strengthening of Parliament's powers and thereby eliminating the democratic deficit. Finally, David Martin's report on behalf of the Institutional Committee of the European Parliament, paid considerable attention to identifying 'in precisely which areas common policies are

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<sup>1</sup> Vedel report (1972), Suppl.4/72-Bull EC, Tindemans Report (1975), Suppl. 1/76-Bull EC, Three Wise Men's Report (1979).

necessary<sup>2</sup>. The Report distinguished four policy-areas as core responsibilities for the European Union: economic and monetary integration; the social and environmental areas; foreign policy and peoples' Europe.

## 1.2 Subsidiarity in the Treaty on European Union (TEU)

The declaration on subsidiarity agreed at the Edinburgh summit of December 1992 reinforced the point that for most EC member states as for the European Commission, subsidiarity had become a critical tool in the effort to enhance the Community's democratic legitimacy and close its democratic deficit [Miller, 1993, pp.10-12]. Its adoption was cheered by both defendants of more authority at the Community level, like France and Germany, and opponents of such a development as the United Kingdom. The emergence of subsidiarity as a dominant theme of the British EC Presidency of 1992 reflected the UK government's need to allay fears, that the Maastricht Treaty represented a quantum leap towards a European super-state. Fleshing out subsidiarity was also viewed as a way to encourage Danish citizens who voted against ratifying the Treaty in the June 1992 referendum to reverse their decision in the second referendum. In both the UK and Denmark subsidiarity was embraced as a device for checking the perceived growth in the power of the EC institutions. The German federal government, on the other hand, as well as the European Commission, had met strong resistance from the German Länder, who feared that the completion of the Internal Market, based on negotiations between Bonn and Brussels, would actually lead to the shrinking of their regional competences (Jeffery and Yates, 1993, pp.59-71). This emergent consensus has obscured the fact that subsidiarity - a vague concept in any event - is defined in different ways in different parts of the Maastricht Treaty. As A. Scott et. al. [1994, pp.48-49] have pointed out, the Treaty first (Art.A) presents subsidiarity as a substantive principle which holds that all political decisions should be taken as closely as possible to the citizen. In Article 3B on the other hand, subsidiarity is posed as a procedural criterion to determine when and how the EC should take action.

Subsidiarity, in its procedural sense, is about efficiency in policy implementation. It prescribes that policy should be implemented by that level in any governmental structure which is capable of achieving the objectives of the policy most efficiently. In order to interpret the

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Interim report on the Intergovernmental Conference in the context of Parliament's strategy for European Union, Rapporteur: David Martin, Luxembourg, European Parliament (February 1990), p.14.

need for action in areas of shared competence, the Commission emphasizes the need to consider each case individually in the light of two criteria: scale and effect. It envisages a twofold comparative efficiency test [CEC, 1992, p.10]. In the first place, attention is paid to the means available at national level, to see whether they might suffice to attain the objectives of the measure which is envisaged at Community level. The second test entails an evaluation of the envisaged Community action, in order to determine whether by reason of scale or effects of the proposed action, its objectives can be better achieved at Community level. This is what the Commission has called a value added test [CEC, 1992, p.10]. These two tests refer to two different types of operation. The first appears closer to a mere effectiveness test; if action at the national level is capable of producing the desired result, it should be given preference. The second is more concerned about efficiency matters; the reference to the fact that the objective has to be better achieved at Community level implies that a comparative evaluation of the costs and benefits of action at Community and at national level is required [Dehousse,1993, p.8]. Like efficiency, subsidiarity in its procedural sense is linked to the other criterion used to determine the substance of EU actions, namely proportionality. The principle of proportionality is used as a criterion for determining the acceptable limits to EU intervention. It implies that the intensity of Community action should be proportional to the consequences which follow from the objective which is sought. To avoid accusations that its actions are disproportionate, the Commission gives, as far as possible, priority to support measures rather than regulations, to mutual recognition rather than harmonization, to framework directives rather than detailed rules and regulations.

Scharpf [1994, pp.6-11] argues that Article 3B will not provide justifiable constraints on EU competences, because of two main reasons. First, in view of the extreme differences in the economic development and administrative capacities of the member states, it will always be possible to argue that the objectives of the proposed action cannot be sufficiently achieved by the member states; and secondly, there will be hardly any field of public policy for which it will not be possible to demonstrate a plausible connection to the guarantee of free movement of goods, persons, services and capital and thus to the core objectives of the EU. Stressing the importance of the problem-solving capacities of national politics in a multi-level system of policy-making, Scharpf suggests the new strategy of the Commission to choosing less restrictive techniques of regulation in the implementation of Community policy can only

succeed, if the member states will also adopt policies that are more compatible with the objectives of the EU.

Toth [1992, pp.1079-1105] on the other hand, points to three main objections to the incorporation of subsidiarity in the TEU. The first is linked to the discrepancy between subsidiarity as a principle governing the allocation of competences in federal states and the rather intergovernmental character of EU decision-making process. The second objection concerns the way in which the principle is defined in Article 3B. It does not provide a precise list of situations in which the principle is applicable. Instead, it lays down two tests which may lead to contradictory results. Thus, the application of Article 3B in practice may give rise to endless debates, confusion and uncertainty. Finally, the third objection refers to the role of the European Court of Justice, which has been put into the position of having to adjudicate over disputes involving the application of a purely political principle.

The definition of subsidiarity implied by Article 3B is different, although not inconsistent, with the definition by Article A. Article A's emphasis is on broad notions of democratic control. The idea that political decisions should be taken as close to the citizen as possible, is a fundamental pillar of democracy for many democratic theorists, advocates of strong local government and, in particular, federalists. In this sense, subsidiarity may be viewed as a call for decentralization and as a critical tool in the effort to close the democratic deficit of the Union.

On the other hand, as the EU moves towards an ever-closer union, certain functions now in the domain of regional and/or national authorities will need to be transferred to a higher level. For example, the SEA mandates that environmental policy must be subject to some element of pan-EU regulation, even though the German Basic Law gives responsibility to the Länder for certain aspects of environmental policy. Similarly, if the plans for economic and monetary union are realised, one of the classical economic functions of the nation-state - monetary policy- will need to be transferred to a higher level (i.e. European Central Bank).

Foreshadowing the 1996 Intergovernmental Conference (IGC), the Reflection Group stresses the importance of the correct application of the principles of subsidiarity and proportionality, pointing to the role of the Commission and the ECJ for more effective "ex-ante" and "ex-post" control respectively, as the institutions responsible for watching over the Treaties. What is implied by the term "correct application" in the RGR is: a) that subsidiarity

should not remain an abstract principle; and b) that it should not become an instrument for systematically limiting the Union's powers (RGR,1995).

Therefore, subsidiarity should be seen as a dynamic concept. In its procedural sense it implies a redefinition of the traditional roles of different levels of government, with some powers being passed down to lower levels and others being transferred to higher levels. To maximize the chances for the successful achievement of policy objectives, the division of responsibilities between different levels must be informed by efficiency concerns, particularly at the implementation stage. However, the interaction between substantive and procedural subsidiarity implies a cost-benefit analysis to determine a trade-off between democratic guarantees and efficiency in the policy process. As has been pointed out, the operationalization of the principles of partnership and subsidiarity may be seen as part of the impact of the integration process upon the restructuring of the European nation-state by the redistribution of its policy responsibilities upward, downward and outward. Upward to the European level, downward to subnational governmental structures and outward from the governing of economic markets as a consequence of the predominance of the neo-liberal principles of liberalization and deregulation [Leonardi, 1993, pp.28-31].

## **2. THE PRINCIPLE OF SUBSIDIARITY AND THE COMMUNITY'S REGIONAL POLICY**

### **2.1 Subsidiarity, Regionalism and its critiques**

Although the formal incorporation of subsidiarity in the TEU (art. 3B) poses it as a mainly procedural criterion of delineating competences between supranational institutions (Commission) and member state governments, its operationalization in the policy-making process is seen as having far reaching repercussions. First, it is seen as a recognition of the necessity for flexibility in the EU policy-making and decision-taking processes. Second, this flexibility implies the need for flexibility within the member states, that is the need for devolution and deconcentration of their administrative and economic structures. It is in that sense that the subsidiarity principle is considered as one of the most important features of European regional policy, after the 1988 reform of the Structural Funds, along with the geographical targeting of their resources (Obj.1,2,3,4,5a,5b,6), the change in emphasis from projects to programmes (Community Support Frameworks-CSFs), and the principle of

additionality. The reforms of structural policy have created a two-sided process, involving decentralization of decision-making to subnational levels of government as well as centralization of new powers at the supranational level. If we encompass the experience of structural policy in the field of the future European polity, it can be viewed as the leading edge of a system of multilevel governance [Marks, 1993, p.392] or co-operative regionalism [Scott et al, 1994, pp.58-59] in which supranational, national, regional and local governments are enmeshed in territorially overarching policy networks. Instead of a centripetal process where decision-making is progressively centralized in Community institutions, in structural policy we see a centrifugal process in which decision-making is spun away from member states in two directions: up to supranational institutions and down to diverse units of subnational governments. Thus, '**Europe of the regions**', the famous term for this system of governance, amounts to 'a regionalization of Europe as well as at the same time a Europeanization of its regions' (Streeck and Schmitter, 1991,p.153).

The principle of subsidiarity along with the principle of partnership are seen as the main components of the system. Whereas partnership is considered as a principle of co-operation between the supranational, national and regional elites, subsidiarity helps to co-ordinate the responsibilities, in the sense that it implies allocation of decisions to the appropriate level of governance. Moreover, subsidiarity in its substantive meaning -the need for policy to be made at the closest possible level to the citizen- helps to promote accountability and transparency and hence democracy. On the other hand, partnership and subsidiarity as principles of regionalism have played an important role in the institutionalization of subnational governments and thus in their chance to bypass the central governments in the planning and implementation process. Indeed, subnational governments have developed vertical linkages with the Commission that bypass member states and challenge their traditional role as sole intermediary (or '**gatekeepers**' as S. Hoffmann famously described the role of member states) [Hoffmann, 1966, pp.862-915] between subnational and supranational levels of government.

Direct contacts between the Commission and subnational governmental representatives take place both in the regions and in Brussels. Commission officials and local and regional government representatives are active participants alongside member states officials in the tripartite CSF monitoring committees. The growth of direct links between subnational governments and supranational authorities (Commission) opens up possibilities for coalitions

between both ends against the middle (i.e. member states). Marks has argued that the states are being 'outflanked' on the one side by the transfer of authority to the EC and on the other by the emergence of powerful regional bodies [Marks, 1992, p.212]. The main hypothesis behind the argument is that European states reflect neither the diverse cultures, languages and identities of Europeans nor the total of regional units of economic life. In that context, the role of various geographically based cultural minorities must be stressed. Welsh, Bretons, Basques and Catalans have joined the Bureau of Unrepresented Nations set up in Brussels in 1977. Germany's Laender governments have demanded, and have been granted, observer status on several EC bodies. Nevertheless, the fact that the Committee of Regions (CoR) neither has not be given decision making powers nor should it expect much from the forthcoming IGC, as far as its requests for an upgraded status among the EU institutions and for its role as subsidiary watchdog are concerned, points to the changing pattern of regional interests representation at the transnational level from the neocorporatist system of specific nation-states to a rather competitive paradigm.

The reformulation of European regional policy, however, is viewed not only as a means to promote democracy and administrative efficiency in the policy-planning and implementation process, but it should be closely linked to the economic, technological and political changes that have occurred since the early 1970s and their structural and spatial consequences. Since the early 1970s the transformation of production, in particular the move from mass production towards more flexible production methods, has been seen as a key-factor encouraging the re-emergence of the region or locality as an integrated unit of production and as a key locus of socio-economic governance (Sabel,1994; Hirst and Zeitlin,1992; Storper,1995; Piore and Sabel,1984). Increased international competition, internationalization and fragmentation of the markets, rapidly changing demand and the shortening of production and product cycles have favoured small firms, which employ more flexible production methods. The volatility of the markets has led to flexible forms of organization of production that permit rapid shifts in output. The new production concepts are to be realised by overcoming the rigidities of the old organization of production, bringing back self control and self regulation to the working process and facilitating quick adaptation to changing market demand by means of viable small scale production (economies of scope instead of economies of scale). The 'double convergence' (Sabel,1994) of small- and large firm structures (industrial districts of horizontally integrated

and spatially concentrated SMEs and large decentralized companies) is seen as one of the major developments that have contributed to the consolidation of the region as an integrated production system and the strengthening of its potential as a key economic actor. Thus, the emergence of regions should be seen as a response to the economic and technological changes of the 1970s, intrinsic characteristics of which are, on the one hand, the progressive crisis of the Fordist pattern of production and the Keynesian welfare state and, on the other hand, the increasing role of the flexible specialization paradigm (Piore. M., C. Sabel, 1984). There is a vast literature on the emergence of industrial districts and regional economies in Italy (Third Italy); Germany (Baden-Wurtemberg, Bavaria); Denmark; France; U.S, Japan and so on.

Nevertheless, the emergence of regions and localities can only be understood within the context of a changing, globalizing political economy. As Amin and Thrift (1994; pp.3-5) have argued, these changes include: i) the global centralization of the financial system and the dominance of finance over production; ii) the transnationalization of technology and the increasing speed of redundancy of new technology; iii) the importance of knowledge and expertise as factors of production; iv) the rise of global oligopolies; v) the rise of transnational economic diplomacy; vi) the globalization of communication and immigration flows leading to the rise of global culture and the delinking of identities and symbols from territory; and vii) as a result of all of the above, the development of global geographies. The increasing intensity of globalization of economic activities and information, however, does not imply a greater homogeneity of preferences in the framework of a global village, but rather stresses the existence of local specificities and local milieux. Thus, the processes of globalization and localization coexist in the so called global-local interplay (Dunford and Kafkalas, 1992,pp.3-38). These seemingly contradictory movements have led to the weakening of nation states and erosion of their autonomy. The hollowing out of the state can be interpreted as the result of its weakened ability to regulate effectively the economy within its own borders because of the internationalization of economic processes. Overwhelmed by the globalization of economic relationships as well as of ecological crises and of the risks of financing the welfare state, centralized states of different structure have reacted with strategies of decentralization. As Jessop points out, 'this loss of autonomy creates in turn both the need for supranational coordination and the space for subnational resurgence' (1994,p.264). The principle of subsidiarity and the concept of regionalism raise the question throughout the Union and also

in each member state of a new balance of responsibilities into which the subnational level is incorporated with changed role requirements.

Thus regionalization has taken place in traditionally rather unitarian states in southern Europe such as Italy (1970) and also in Spain during the process of autonomy [Leonardi, 1993(b), pp.224-236]. A smaller state like Belgium, characterized by cultural barriers, has decided to reduce national competence on a large scale in favour of the right of independent cultural communities and regions. In Greece, a series of important institutional changes were introduced in 1986-87 as a result of the implementation of the IMPs and the CSFs. The country was divided into thirteen programme regions which formed the basic units for the Regional Development Plans under the CSF. Each region was to be headed by a government-appointed regional secretary. Appointed regional councils were also established, under the chairmanship of the regional secretary. Finally, in 1994 an elected second tier of local government -at the prefecture level- were established, after a four year delay (the election was due to take place in October 1990, with the new councils scheduled to come into existence in January 1991). The centralized state of France has taken the middle road with its more circumspect policy of decentralization in the 1980s. The development in the United Kingdom can be used as a counter example. Considerable privatization has, since the end of the 1970s, been going hand in hand with the recentralization of the political system. Germany must be considered as the other extreme among the larger EU member states. There are comparatively vital regional and local levels that cannot simply be put out of action by decision of the central authorities because of the constitutionally guaranteed federal character of the state (Bullmann, 1994).

On the other hand, greater decentralization and deconcentration may be interpreted as an adaptation to the increased importance of the local sphere in every-day life. As R. Watts has argued, what we are witnessing today is a two-fold process in which, on the one hand, there is a pressure throughout the world for larger political units capable of promoting economic development, improved security, rising standards of living, influence in an era of ever-growing world-wide interdependence; on the other hand, there is the search for identity which arises 'from the desire for smaller, self-governing political units, more responsive to the individual citizen and the desire to give expression to primary group attachments -linguistic and cultural ties, historical traditions and social practices- which provide the distinctive basis for a community's sense of identity and yearning for self-determination' (1981,pp.3-4). Therefore,

regionalization and regionalism should be seen as two interdependent and correlated concepts, given that, while the former is interpreted as a mainly from above process, the latter constitutes a movement from below<sup>3</sup>. As C.Harvie has pointed out, 'regionalization, the chopping-up of problems into manageable areas, has now be given way to a subjective and aggressive regionalism' (1994,p.4).

The emergence of regionalism and the concept of 'Europe of Regions' have fuelled the academic debate on the impact of the Single European Market (SEM) on uneven development and regional disparities in Europe, the role of nation-state and regional institutions, the role of social and cultural factors as the 'mystics' of development and the fate of the Less Favoured Regions (LFR).

The predominance of the supply-side/neo-liberal orientation in the programme for the completion of the SEM is viewed as leading to an inevitable process of Myrdalian 'circular and cumulative causation' and 'backwash effects'. In a similar vein, the new theories of international trade place emphasis on the role of economies of scale, imperfect competition, differentiated products and innovation (Krugman/Venables, 1990; Tsoukalis, 1993). According to this core-dominance hypothesis there is a clear core-periphery pattern to regional disparities with the core of the EU viewed as centred on the famous 'golden banana', which runs from south-east England to northern Italy, and the periphery represented by the whole or some parts of the southern and western parts of Europe (Amin and Tomaney, 1995a; Hadjimichalis, 1994). For supporters of this divergence-paradigm the 'Europe of Regions', the SEM and the programme for economic and monetary union provide benefits for the rich regions who are the only real enthusiasts of regionalism. The most relevant case, which is used to underline this argument is the 'Four Motors of Europe' project which has created a co-operation network between four of Europe's economically strongest regions: Baden Wuerttemberg, Rhone Alpes, Lombardia and Catalunya (Amin and Tomaney,1995a; Hadjimichalis,1994). Hence, Europe's LFRs are viewed as trying to survive under conditions of a zero-sum game, in a global environment

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This distinction draws heavily upon C.Hadjimichalis' analysis of regionalisation and regionalism. According to this analysis the former is defined as a process designed 'from above' (by the state or local authorities) aimed to facilitate the changing needs of the accumulation process, while the latter is referred to the reaction of local social groups whose interests are threatened by such a regionalisation. It has been argued that this conflict provides evidence of the 'social logic of the place' (Hadjimichalis, C. 1987,pp.286-287).

dominated by multinational corporations, transnational banks and business global consultancies without having any chance for sustainable development (Amin/Tomaney, 1995a,b; Hadjimichalis, 1994; Amin/Malmberg, 1994). Within this analytical framework the nation-state is rescued as a vital locus of economic development policy and as an important guardian of the regional interest in general and of that of weaker regions in particular (Amin/Tomaney, 1995a,b; Teague, 1995). The involvement of the German federal government in regional structural policy through the joint task mechanism (*Gemeinschaftsaufgabe*) and in supporting national cohesion through the operation of the *Laenderfinanzausgleich* mechanism has been usually used as the most relevant example. On the other hand the orientation of the Cohesion Fund in providing support for the poorest member states, rather than the poorest regions is viewed as a clear reaffirmation of the intergovernmental nature of EU policy-making structure and of the dominant role of national sovereignty in economic policy. Thus, the nation state is seen on the one hand as a gatekeeper balancing domestic demands and international pressures (Moravcsik, 1993; Taylor, 1993; Anderson, 1991) and on the other as a key-actor in formulating regional development strategies.

Nevertheless, there is little evidence to suggest on the one hand that economic integration has itself contributed to the widening of disparities (Barro/Sala-i-Martin, 1991) and on the other that the nation-state can be seen as a viable locus of regional development strategies and guarantor of the interests of the LFRs against the pressures imposed by the neoliberalism-dominated global environment. Broadly speaking, it appears that inter-country disparities in the EU were reduced during the 1960s and early 1970s. The trend was reversed during the recession until the mid-1980s when growth rates among the less developed member states picked up again, leading to another reduction of disparities which coincided with the economic boom of recent years. Spain constitutes the most relevant example, although higher rates of economic growth and direct foreign investment seemed to reinforce internal regional disparities (Tsoukalis, 1993; Leonardi, 1993a, 1995a). It could also be argued that participation in the ERM for both Spain and Portugal, by ensuring exchange-rate stability, has constituted an important parameter for the development prospects in both countries. However, theoretical approaches to and empirical evidence of the effects of integration on regional disparities have created an unclear landscape (Keating/Hooghe, 1994). What the evidence from the interregional rankings clearly indicates is that some of the less developed regions have caught

up while other core regions facing problems of industrial restructuring have been drawn down into the central core, validating thus to some extent the 'downward-convergence' scenario. In other words, some regions are more capable than others of adjusting to the rapidly changing and challenging economic and social environment. The regions of 'third' Italy, southern Germany (Bavaria, Baden-Wuerttemberg) and Spain (Catalunia, Madrid, Murcia) can be used as the most prominent examples.

There are important lessons to be learned from these success stories of regional development and regionalism. First, the outcome of development strategies is determined by the presence at regional and local levels of crucial political (institutions, institutional networks) and socio-cultural (social capital) factors, rather than by the availability of economic resources (Putnam et.al., 1993; Amin/Thrift, 1994; Storper, 1995; Leonardi, 1995b). Second, Europe's least developed regions should not be seen as struggling for survival under conditions of a zero-sum game. Such an approach underestimates the dynamic of intraregional interactions that can counterbalance the global pressures by exploiting the benefits of collective action. Third, it is doubtful whether successful regional development strategies in third Italy and Southern Germany should be attributed to the support provided by a powerful nation-state given that in Italy, beyond the well known weakness of central state since almost the end of the second World War, the only implemented national regional policy has been focused on the development of Mezzogiorno (*Casa per il Mezzogiorno*, 1950-1970) with poor results (Leonardi,1995b; Putnam et. al.,1993), and in Germany, despite the interlocking character of the federal system, development strategies are the outcome of bottom-up initiatives (Stoehr,1990; Morgan,1992). Therefore, finally, within the contemporary disorganized and deregulated capitalism, a revival of the Keynesian regulatory instruments at the nation-state level cannot be seen as a viable alternative to neo-liberalism. The intergovernmentalist approach to integration, on the other hand, although it describes adequately the formalities of the decision-making process in the EU, it is incapable of capturing the dynamics of the system, within which, at least after the completion of the internal market (SEA) the role of nation-state has been replaced to a significant degree by the 'voluntarism of the market and civil society' (Streeck/Schmitter, 1991, p.157; Leonardi, 1995, p.24-25; Cappellin, 1995). Within this framework, what is crucial for today's regional policies, is certain capacities for collective action at the regional level that can determine the outcome of the development process(Storper,

1995).

## 2.2 Subsidiarity, Institutions and Learning: the role of Social Capital

The emergence of new patterns of local economic development has promoted changes in the conceptualization of local economic governance. The traditional top-down models of regional development were based on the Fordist paradigm of organization of production, and therefore the role of the central state as the main political actor. Instead, through the redefinition of the concepts of territory and space, the bottom-up approaches acknowledge that development is a multi-dimensional concept not reducible simply to economic factors, but must include social, political, cultural, historical and institutional considerations. They emphasize the role of economies of scale which are external to the firms but internal to the region, such as research and development, technical and managerial training, supply of business services, incentives to create networks among SMEs and organisations and so on. In such a model of development regional and local governments are seen as moderators of regional development, who play a crucial role in identifying the types-sectors of production where the regional economy has a comparative advantage, in providing the appropriate incentive structure, and in stimulating synergistic effects between the participant actors to maximise effectiveness in the use of resources (Cappellin, 1992; Leonardi/Garmise,1993; Leonardi, 1995).

The bottom-up approach to regional development has raised the issue of the role of institutions and social and cultural factors in determining the outcome of development policies by resolving dilemmas of collective action. 'Collective dilemmas arise when choices made by rational individuals lead to outcomes that no one prefers' (Bates, 1988,p.387). The crucial question, however, refers to the old problem of what causes what structure or culture. Are formal institutions the means to achieve collective action and economic performance or is their success dependent on the existence of informal norms that evolve from culture, traditions and social behavioural codes, that is social capital? New institutional economics and economic sociology have examined, in various ways, the linkages between social capital, institutional and economic performance at the regional level. The new institutionalists see in collective dilemmas reasons for the existence of institutions, that is 'forms of hierarchy in which sanctions are employed to make self-interested choices consistent with the social good' (Bates,1988,p.387). North has defined institutions as 'the rules of the game, or as humanly devised constraints that shape human interaction' (1990,p.3). In new institutional economics,

Williamson (1975), emphasized the role played by formal institutions (hierarchical firms) in reducing transaction costs, in enabling thus agents to surmount problems of opportunism and hence in performing economic functions.

Economic sociology's criticism of the undersocialized character of new institutional economics, however, focuses on its attempt to explain social institutions from a functional-neoclassical point of view (Granovetter, 1985). Granovetter's 'embeddedness argument', instead, stresses the role of personal relations and networks of relations in generating trust, in establishing expectations and in enforcing norms. Thus the embeddedness approach emphasizes the importance of: seeing economic action as social action; understanding networks as a function between markets and hierarchies; and tracking the processes of institution building (Granovetter, 1985). In that sense, the embeddedness approach points to the role of social and cultural contexts in affecting rational or purposive action and sees social structure, institutional and economic performance as interdependent and interactive systems. Beyond the theoretical arguments there is evidence to suggest that the differentiation of social norms is highly correlated with varying levels of institutional and economic performance (Putnam et.al.,1993).

The shift in emphasis from economic to socio-cultural factors -what has become known as 'institutional thickness'-(Amin,1994,pp.14-16) as determinants of economic performance is seen as a great leap forward as far as the problem of development is concerned. On the other hand, it represents an introduction into the 'mysteries of learning economy'(Storper,1995). The concept of learning economy is based on two basic processes: technological learning and institutional learning. Technological *learning* -as defined by the school of evolutionary economics- implies that since technologies develop along pathways or trajectories, technological change is path dependent. It involves interdependencies between choices made over time, which means choices sequenced in time, not simultaneous and often irreversible. Those choices have a spatial dimension, which is closely linked to their uncertainty and interdependence. Interdependence means uncertainty, since we cannot determine exactly what others upon whom our choices are dependent will do. The only way that such uncertainty is resolved is through conventions, that is forms of social capital (trust, reciprocity) that shape the relations between partners and facilitate collective action (Storper,1995).

On the other hand, learning economy is based on relations and interactions within the socio-institutional context. It focuses on institutional networks as intrinsic elements of dynamic regional and local economies, since network is seen as the most appropriate organizational model to achieve flexibility and specialization. The main assumption is that institutions must be adaptable, rather than adapted, to the changing economic and social conditions, that is they must be able to learn, namely to change with changing conditions. As Storper (1995) has pointed out, since learning may often require that changes be made, then organizations must be able to move resources around fairly easily, hence they must be flexible to exploit the benefits of learning. On the other hand, some aspects of the learning process require that some participants are highly specialized in certain areas or tasks. This combination of flexibility and specialization is best achieved in a networked organization and thus learning economies and learning institutions tend to develop this model. Moreover, when multiple organizations (subnational authorities, business and trade associations, universities and other education and research related agencies) are involved in combined learning, the ability to share tacit knowledge and understanding requires that the interpretation is mutually consistent.

Therefore, for the learning approach 'knowledge is the most fundamental resource in modern economy and, accordingly, the most important process is learning'; but 'learning is predominantly an interactive and, therefore, a socially embedded process which cannot be understood without taking into consideration its institutional and cultural context' (Lundvall,1992,p.1). Thus trust, dialogue and communication -key components of learning and hence of economic performance- are empowered or inhibited by the socio-political process. Knowledge, on the other hand, is relational and understanding cannot be disassociated from the relationships in which it is shared; hence the importance of norms, conventions and rules of the game, that is forms of social capital, which provide the glue that cements these relations. These conventions, which emerge from rounds of action and interaction, make possible communication, interpretation, and coordination among the actors, that is rules of action that permit participants in the production system to develop, communicate and interpret information as well as to develop knowledge, and to develop the people who develop and interpret knowledge (Storper,1995,p.209). Those forms of social capital (the Storper's -1995- 'untraded interdependencies') facilitate the development of network relations which become assets in and of themselves, as well as the inbuilt capacity of institutional networks to learn and

adapt to changing circumstances, that is appropriate institutions for a learning economy.

Hence, from public policy's point of view, the learning economy implies two challenges to policy-making: to establish and maintain first, the technological trajectory, i.e. specific spaces in the economy characterized by technological spillovers (stimulating technological learning), and second, the trajectory of conventions, which make possible certain capacities for collective action and coordination (maintaining institutional learning) (Storper,1995,p.212). The crucial question is, however, whether or not social capital can be created. Despite Sabel's (1993) optimism<sup>4</sup>, it is seen much more difficult than the establishment of various new formal institutions.

As it is obvious, the key contribution of the learning approach is its attempt to go beyond new institutionalism (institutional building) and to capture the system of interactions between culture and structure, that is the causal nexus between cultural norms and attitudes and the institutional structure (institutional networks) that make up the civic community. Effective institutional networks require civic engagement and the existence of a viable civic community, that is the presence of social capital. This complex system of conventions, which has been overlooked by both neoclassical and left-wing economics, as well as by European regional policy, especially after its reorientation in the TEU with the creation of the Cohesion Fund, constitutes a necessary conceptual foundation for any regional or national development strategy today. Although our analysis seems to refer to Europe's 'strong, dynamic' regions, it can be used to shed light on policies focusing on less developed regions, such as those targeted by the structural funds. In that sense, the principle of subsidiarity as an important component of European regional policy should be seen as a useful tool for the dynamic regional economies capable of adapting to the changing environment and simultaneously as a challenge for the less favoured regions to become from recipients of assistance real protagonists in the development process by 'investing' in capacities for collective action. Within this analytical framework, social capital, subsidiarity

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C. Sabel's notion of *studied trust* constitutes his rather optimistic answer to the question. *Studied trust* refers to a 'kind of consensus and the associated forms of economic transactions' that theoretically result from 'associative' or 'cooperative' or 'autopoietic' -that is self-creating- 'reflexive' systems. These are systems in which 'the logic governing the development of each of the elements is constantly reshaped by the development of all the others: the parts reflect the whole and vice versa' (C.Sabel,1993,pp.125-130). Sabel's optimistic view on the creation of trust is based on the hypothesis that 'trust is a constitutive -hence in principle extensive- feature of social life'(1993,p.140).

and regionalism could be seen as interdependent and interrelated concepts.

### **3. CONCLUDING REMARKS**

The principle of subsidiarity already forms a key-word in EU policy-making and decision-taking. Since its emergence on the European political agenda in the early 1970s it has constantly been linked, on the one hand, to the tension between centralization and decentralization, and on the other to the prospect of reaching an acceptable trade-off between efficiency and democratic guarantees in the policy-making process. Its incorporation in the Treaty on European Union continues to reflect the same dilemmas. In particular, while in its procedural sense (Art.3B) - allocation of responsibilities informed by efficiency concerns - may have either a centralising or a decentralising effect, as a substantive principle (Art.A) - decisions should be taken as close as possible to the citizen - becomes a call for decentralization, as well as a critical tool in order to enhance the democratic legitimacy and cure the democratic deficit of the Union. In any case, the subsidiarity principle aims to strike a delicate balance between the concurrent demands on policy-making efficiency and greater democracy at the EU level.

However, one should not underestimate the inherent difficulties in applying a predominantly federal principle to the context of a 'part-formed' system of governance such as the EU which includes elements of intergovernmentalism. Given the fact that the TEU does not allocate clearly specific competencies and responsibilities between different levels of government within the EU body politic, some member states may interpret subsidiarity in such a way so as to obtain a repeal of existing, potentially inconvenient, Community legislation. Moreover, the role of the European Court of Justice in having to adjudicate over disputes involving the application of a purely political principle remains unclear.

The operationalization of the principle in the field of regional policy has given the Community a preminent role and has forced traditionally highly centralized nation-states to recognize the importance of sub-national governments in the planning and implementation process. Thus it may be seen as part of the impact of the integration process upon the restructuring of the European nation-state by the redistribution of its policy responsibilities. However, within a system characterized by increasing globalization of information, markets and finance, the fate of regions and localities is dependent on the empowerment of civil

society and civic community rather than on the protective role of a revived Keynesian nation state. This powerful civil society can constitute the real alternative to the neoliberal predominance.

The principles of subsidiarity and partnership and the concept of regionalism as the main components of European regional policy have played an important role towards the mobilisation and empowerment of subnational governments. In that sense, the evidence on structural policy suggests that intergovernmental and neofunctional theories of regional integration should be seen as inadequate because they are too narrow in one important respect: they conceive of the decision-making process in the EC as dominated either by inter-state bargaining at the one extreme, or by supranational institutionalism at the other. What we are witnessing, however, is the emergence of a system of multilevel governance in the European Community, characterized by the crucial role of the third tier of governance (subnational - regional, local) in the decision-making process. Such a system of regional interest representation at the supranational level implies a shift in the model of the European political economy from the neocorporatist pattern -predominant system of interest politics within specific nation state structures (Germany)- to a rather American-style paradigm of 'disjointed pluralism' or 'competitive federalism' (W. Streeck and P. Schmitter, 1991, p.159), which can constitute a persuasive alternative to neoliberalism as a model for the European political economy of the future. Within this system the principle of subsidiarity should not be seen as just a procedural criterion for delineating competences between member states and supranational institutions, but as an incentive for mobilization of civil society (civil society mobilizer) towards the achievement of higher levels of collective action, that is towards acquiring more power (Metcalf, 1981, p.504). Thus, while the principle of subsidiarity, according to the Christian democratic tradition, has constituted an important component of the system of regional interest representation in Christian democratic tradition-influenced, corporatism-based, social market-oriented federal states in Europe, it simultaneously supposed to be a useful tool within a more pluralistic, but federal in character, policy making environment: that of the European Union.

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