DEVELOPMENT POLICIES FOR LAGGING BEHIND AREAS: AN INTERPRETATIVE NOTE IN THE NAME OF CIVIL ENTREPRENEURIAL DEVELOPMENT

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Abstract

This paper is a part of the critical literature of the neoclassical approach to regional development policies and on the role of trust and social norms in defining growth processes. It also adds the role of entrepreneurial capacity in stimulating development processes, by creating a virtuous circle, according to a civil approach to economic dynamics. Starting from the limits of the standard economic paradigm in contributing to the reduction of regional development gaps, the article will deal with regional development issues, focusing on the role of trust and the developing entrepreneurship, with an approach that starts from the concept of civil economy, based on the institutional sustainability of innovative forms of development policy. Finally, a scheme for civil entrepreneurship development, based on trust, will be presented.

Keywords: Regional development policies; Trust; Entrepreneurial capacity; Civil economy, Institutional sustainability

1. Regional gaps and different approaches to development policies

In recent decades there has been a strong emphasis on regional development policies. Empirical evidence tends to confirm that these policies have led to a certain convergence, at least in terms of per-capita income in the main countries, but this has not been accompanied by convergence (in some cases an increase in divergence occurred) among the individual regions within

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individual States (European Commission 2017; Ridao-Cano Bodewing 2018; Austin, Glaeser, Summers 2018).

Generally speaking, regional policies should reconcile the principle of competition with social solidarity (equity), in order to have a more balanced development, capable of reducing inequalities. Consequently, these policies should lead to a convergence of development indicators in the medium-long term, including disposable income per-capita.

Recent studies (Alcidi et al. 2018; Iammarino, Rodriguez-Pose, Storper 2018; Rosés, Wolf 2018) agree in underlining that until the early 1980s of the last century (at least in Europe) there was convergence in the growth rates of GDP per-capita (consistent with the hypothesis of so-called β-convergence[1]), but since then the distances between regions have increased.

It has also been spotted the *existence of a U-shape curve in the development of convergence at the regional level*, with a reduction in the gaps until the eighties and their regaining since then. This trend reminds closely income distribution, which has also marked an increase in inequalities since the same date[2].

Two aspects – among many – deserve specific consideration:

- the distinction between convergence processes at the national and regional level;
- the eighties as a watershed in which the processes of convergence are attenuated and even reversed: these were the years in which there was a revival of neo-liberal policies, inspired by a principle of competition, on the presumption that the initial increase in inequalities would have spill over effects and activated forms of mobility of capital and investments from the most developed areas to those lagging behind in development.

The correspondence between the increase in development disparities and personal income disparities (Piketty, Saez 2003) at the regional level leads to the conclusion that there may have been a relationship between these phenomena; the increase in inequalities in interpersonal incomes at the territorial level has led to what some authors (Rodriguez-Pose 2018) call the "revenge of places that don't matter", whose population has supported political forms of populism (with self-defensive purpose), as a reaction to the increasing inequality.

On the basis of these considerations, new approaches to regional development are emerging, which *recognise the inability of traditional policies to achieve lasting processes of rebalancing*, and which instead aim to implement strategies of "distributed development" (Iammarino, Rodriguez-Pose, Storper 2017; Iammarino, Rodriguez-Pose Storper 2018), based also on the consideration of qualitative aspects such as satisfaction and personal creativity.

These strategies can be referred to as an economic paradigm very different from the neo-liberal one and bring into question the efficiency of a convergence process, based on a rebalancing between different areas, essentially centred on the efficiency of physical capital (Stiglitz 2016a). Indeed, especially at the regional level, where the interaction between economic trends and social phenomena is greater, emphasis should be put on quality elements and the role of trust capital, that is, the complex of relationships between the various economic and social actors that create a favourable basis for growth and for making people free to create entrepreneurial initiatives.

This article is a part of the critical literature of the neoclassical approach to regional development policies (Iammarino, Rodriguez-Pose, Storper 2017; Iammarino, Rodriguez-Pose

[1] According to this hypothesis - linked to the neoclassical model of the growth theory - the less developed regions should register a higher growth rate of the GDP per-capita than the more developed ones because the capital ratio per employee is low in these areas, consequently the return on investments is high and therefore they would attract more investments, in this way activating a higher growth.

[2] However, several authors opposed to this result, claiming not only defects in the analysis, but also the incompleteness of the data used to reach these conclusions: Refer to the essays Wood, Hughes (2015).

Storper 2018; Haussmann Rodrik 2006) and on the role of trust and social norms in defining growth processes (Tabellini 2010; Bisin, Topa, Verdier 2004; Bjørnskow 2012; Zak, Knak 2001). In addition, it also adds the role of entrepreneurial capacity in stimulating development processes, by creating a virtuous circle, according to a civil approach to economic dynamics.

Therefore, starting from the limits of the standard economic paradigm in contributing to the reduction of regional development gaps, some brief considerations will be formulated on a different way of dealing with regional development issues. The role of trust (which can act on the side of improving fairness) and the developing entrepreneurship (which is more closely related to efficiency aspects) will be emphasized, with an approach that starts from the concept of civil economy, based on the institutional sustainability of innovative forms of development policy.

After having quickly recalled the antecedents of the civil economy, in the third and fourth chapters a scheme for civil entrepreneurship development, based on trust, will be presented and discussed. Trust and trust processes will be explained in the fifth chapter, where different forms of trust capital (including civil and moral capital) are examined and the circuit for sustainable regional development policies is described, also from an institutional point of view. The conclusions summarize the results of the paper.

2. Some theoretical evidences... rediscovering the past

In recent years, the analysis of the link between culture, trust and development has become increasingly important, also in the literature on regional development (Tabellini 2010; Bjørnskow 2012), given the possibility of leveraging new ways of growth not only in quantitative terms, but also in qualitative terms.

The origins of this approach can be traced back to the mid-1700s in Italy, with the formation of a School of Thought on Civil Economy (Bruni, Sugden 2000), particularly in Naples and Salerno, where the foundations were laid for a way of understanding the economy in its "political and human" aspects. This approach, which gave answers that today seem to be of extraordinary actuality, came from authors such as Antonio Genovesi, Gaetano Filangieri, Francesco Pagano, Giacinto Dragonetti and many of their students, *all united by a concept of development that started from the dialectical link between economy and civil society*: public happiness is linked to freedom and the latter is a basic condition for development. *Therefore, freedom and public happiness are inseparable issues*, to the point that – according to Albert Hirschman (1982) – the first French economists (like Turgot) defined economy as the "science of public happiness".

Freedom involves the concept of development, not only in terms of quantitative income expansion (central in the definition of the Anglo-Saxon growth approach[3]), but more over in a wider socio-economic growth.

More recently, the Nobel Prize for Economics Amartya Sen (2000) has highlighted that development is in people's ability to effectively express their capabilities, and public happiness is a strongly relational concept (connection with others), overcoming an exclusively utilitarian view of the economy, based on egoism and self-interest. In the utilitarian conception, the concept of public happiness is replaced by utility, as the capacity of goods to satisfy needs. The relationship between person and person (inherent in the concept of happiness and freedom) is

[3] Adam Smith's "Wealth of Nations" stated that the goal of political economy is displayed essentially as such as explaining the causes of income increase, or rather to provide an abundant income for the people and the State, thus leading to enrichment for both the people and the sovereign.

replaced by the relationship between person and things. People (or better individuals) make their choices and do so in their own specific and restricted interest.

3. Let's change paradigm: towards the civil entrepreneurial development approach

The utilitarian view brought a form of hyper-liberal capitalism where speculative actions that feed the tendency towards crises is central. Crises ere firstly in terms of economic values, and also (and in some cases mainly) of ethical and moral values.

On the basis of this neo-liberal paradigm many of the development policies have been built, inspired by the principle of efficiency, attributing a miraculous role to the market as a general system of territorial rebalancing. As we have seen, such policies have led to blocking the processes of convergence.

As a consequence, a growing interest of economists in the subject of "inclusion" emerged. In order to achieve an inclusive economy based on a generative approach (in which the overall value is measured not only with private profit, but also with the social value of choices: Magatti, Gherardi 2014) it is necessary to overcome a development model exclusively focused on the balancing role of the market, as assumed by the neo-liberal scheme, and focus on an approach of civil entrepreneurial development (Esposito, 2013), paying attention to the value of reciprocity and community.

In other words, *it is necessary to rediscover the figure of the entrepreneur as a social actor,* who is a stimulus for efficiency processes, and at the same time contributes to the creation of larger trust networks based on reciprocity.

This kind of approach re-evaluates *the role of work as a creative action*, emphasizing the concept of "human" craftsmanship (Sennet 2008). Focusing on the entrepreneur’s role, this approach pays attention to the individual ability, the spirit of initiative, the people’s talent, and it is also attentive to contrast inequality, seen as one of the aspects that according to several economists, from Joseph Stiglitz to Thomas Piketty, prevents the achievement of better economic performance.

Civil entrepreneurship (Bruni 2009) has been the basis of many experiences in Italian industrial districts, where work was accompanied by a real "joy of living" (Becattini 2004).

Such an approach *tends to encourage the emergence of civil enterprises*, but for what happens it is necessary to favour not only a concept of *freedom from* (where there must be no external constraints) and also of *freedom of* (to be precise, to make coherent and efficiency-oriented choices), but also of *freedom with* (meaning to collaborate with others on the basis of trust) and of *freedom to* (achieve civil goals).

In order to make all these type of freedom effective, there is a need of institutions that work on the side of collaboration between the State, the market and the civil society, to reconstruct a network of trustworthy connections compromised by the neo-liberalist myth as well as by clientele welfare.

In this context, the value of entrepreneurship is enhanced, in a circuit that involves creating (market and social value), taking care of (the virtuous processes that have been generated), and donating. The latter aspect is more relevant today than in the past, because of the ability to share with others – even in the absence of specific compensation – because of the need to be recognized and the wish to participate in a greater process of value creation.

The three aspects above are the basis of a wikieconomy that has its roots in trust for (and among) people (Becchetti 2014) and leads to reassessing an approach to common goods.

An economy of participation cannot be built only from top to bottom, and by skipping many connections that characterize the network of social relationships. Neither can it be developed forgetting that the task of public intervention is to resolve social conflicts in a logic of development, ensuring that increased equality and improved economic performance are complementary (Stiglitz 2016a).

4. An outline of the different forms of development: the role of entrepreneurship and trust

Considering all that has been said up till now, trust and freedom remind of civil entrepreneurship that helps economic and social development. In this context a form of team rationality is established (Sudgen 2009) in which the achievement of common goals favours the growth of trust for the overall social development.

Civil growth means human growth: a concept that is not new, not even for the traditional economy, to the point that the father of the neoclassical economy Alfred Marshall considered the enterprise first as a place of character formation of those who worked there, and then as the place of production of goods and services.

A civil entrepreneurial development approach is therefore based on the two variables of the growth of trust capital and of what we can define as entrepreneurial capital (Audretsch, Keilbach 2004).

Therefore we can have different situations of development (or even its absence), depending on how the two variables of entrepreneurship and trust get combined, which can lead to be the guide to a different approach to regional policies.

The following matrix is represented in the Figure 1. In the first quadrant (high entrepreneurship/low trust) there is a capacity for self-interested entrepreneurial initiative, without any possibility for the reasons of others: all this converts into a form of selfish development, which involves income growth in the short term, but in the course of time leads to major failures, such as "turbo" American capitalism, cause of the crisis that began in 2008. It is about *selfish growth* (not a development in the full sense of the term), without much attention to the reasons of others, that falls back on itself and eventually creates distrust and closure towards others, an attitude that Richard Sennett (2013) described as the feeding of the "non-cooperative self", to identify the loss of collaboration desire.

On the other hand, even a generally trustworthy context, in which there is essentially no entrepreneurial capacity, is not able to ensure lasting development. This is the situation in quadrant (3) where high generic trust is not accompanied by entrepreneurial initiative. There are forms of management of common goods that do not receive the push towards an innovative process of which the entrepreneur is the author. A growth based exclusively on a cooperative ethics is destined to die out (Mokyr 2016): we secure ourselves to a spiral of subsistence that does not increase the amount of common value, and sooner or later it turns into a real underdevelopment, where impoverishment of common goods ends up resulting in the absence of a relationship of trust and the affirmation of selfish behaviour, with hyper-exploitation (until exhausted) of common goods (quadrant (2)).

Figure 1 – The development map

Trust \ Entrepreneurship	Low	High
High	Communitarianism area (3)	Civil development area (4)
Low	Underdevelopment area (2)	Area of egoistic growth (1)

Civil development, on the other hand, affirms itself when there is entrepreneurial initiative accompanied by strong trust processes (quadrant (4)), in which society, sociality and economy are closely linked and feed each other, and where – in brief – there are conditions for a real affirmation of a civil capitalism, oriented towards cooperation with others.

Different quadrants do not identify stable situations, because there is a continuous development. In the most recent years, in many ways, we have experienced a transition from the fourth to the first quadrant, with the weakening of trust processes, due to the affirmation of consumption models and life oriented to a strong individualism and the proposition of personal success models. This path is degenerating in the underdevelopment area (which is not necessarily identified with a low level of product per-capita, but also with forms of social impoverishment), because the consumption of trust capital, sooner or later, also impoverishes the entrepreneurial tissue and, in any case, the economic democracy that represents the warp of that tissue.

A virtuous circuit, on the other hand, should involve the passage from the area of underdevelopment to that of civil development. This can happen according to a course that first enhances the sharing of common goods (and therefore the trust matrix), or individual entrepreneurial initiative, or at least both, but aiming at an increase in both trust capital and entrepreneurial initiatives.

5. Towards a development policy marked by civil entrepreneurship

5.1 The need of a new policy

Trust and civil entrepreneurship are closely connected foundations to set policies for less developed areas that can be linked to a "balanced" approach (Iammarino, Rodriguez-Pose, Storper 2018) which may combine efficiency and equity. New (and different) development policies must start from these aspects and from the awareness that financial incentives, while in the short term can increase employment and production, in the medium term have negative effects on productivity. More generally, these policies have resulted in the replacement of investments that would have been made in any case, or in displacement with respect to neighbouring areas without incentives (and therefore in a game of zero-sum development, when not negative) often stimulating phenomena of intermediation and a particularistic political demand (and supply).

Therefore, the link between development, civil society and cultural and environmental characteristics (Greenwald, Stiglitz 2013; Stiglitz, Lin, Monga 2013) is essential for regional policies, according to a logic that implies enhancing the historical-local aspects, but placing them in a scenario that is inevitably European and global. Moreover, even a support policy directed only towards individual companies is doomed to failure if it does not assess the intervention for its effective ability to produce an impact on the growth of the overall local economy. The ability to activate energies (from the bottom) for a shared development project must take into account all the complex implications at the economic and social level.

Therefore, it is not sufficient to focus on the growth of purely quantitative parameters related to the existing gaps, and it is necessary to work on the system of relations that generate those parameters.

Companies that are most connected to each other and to the outside world have a better performance, and they are also able to activate innovative processes and active strategies. Sharing activities and values helps development processes, making them stronger and more lasting even at the single company level.

This is why a policy of civil entrepreneurial development must first be a subject to a sustainability assessment. Such sustainability should be measured on the institutional side, meant as the ability to create a "self-supplying circuit in which the institutional framework allows the deployment of individual freedoms/ skills to capture/activate the opportunities offered by the market" (Esposito, Musso 2016).

In order to have effective and lasting regional growth, it is necessary to enhance the entrepreneurial capacity in close relation with the capacity to create a trust capital (synthesis of social, moral and civic norms, and above all of the local cultures of which those norms are the expression, because of the influence they have on the social learning process).

In other terms, *it is necessary to consolidate and develop the link between trust networks and entrepreneurial action*, in order to create a civil entrepreneurship, as in the fourth quadrant of the development map (Figure 1) that is influenced by the foundation of trust capital. *This can also encourage stronger relationships and a constructive competition in the market.*

5.2 The circle of trust and regional development according to the civil entrepreneurship approach

What does trust consist of? It has been mentioned so many times till now, but it has not been defined accurately yet. To be used in an operational way, trust must be properly defined and kept within its conceptual boundaries.

An appropriate definition of trust is: "Shared expectation of cooperation and ability of a community or an organization to give itself a code of conduct based on shared values [...]. In essence, trust can be considered as a social process" (Brusco, Solinas 1997, pp. 22-24). This process implies some basic aspects: the expectation of cooperation of others (responsibility), the existence of shared values, from which the rules of behaviour arise, the strong social characterization, therefore the need for an extended interaction between groups or between communities and/or organizations.

In addition, there are some further elements of trust to be taken into account from the economic point of view (Dasgupta 2011, p. 121): the positive expectation of a subject towards the fulfilment of the promise by another subject and the possibility that this relation could be the basis of horizontal networks of cooperation.

Interpersonal trust and trust in others feed non-opportunistic behaviours, they are the fundamental glue of interaction systems which reduce transaction costs and allow to give a time projection to future choices characterized by uncertainty. Moreover, and above all, trust is a stock that is nourished over time (but can also be impoverished), that is why it can be assimilated to capital (which grows, but can also deteriorate and in any case needs to be maintained): a trust capital.

Edward Banfield, in 1958, underlined different dimensions of trust: relationality – or rather its absence with reference to those individuals outside a small family group – and cooperation/reciprocity. Therefore there are two aspects: the first one allows a better level of information and identifies *social capital* in the strict sense, the second aspect identifies the *civic capital*.

Civic capital has often been neglected in the analysis of fiduciary links, and yet it is of great importance, because it concerns the set of values and expectations that encourage cooperation/reciprocity and, more specifically, the values and beliefs shared by a community and/or a group, which help its members to overcome problems of free riding in carrying out activities useful to the members of the same group. It contains shared values and beliefs that stimulate a cooperative attitude, pushing towards a mutual benefit[4], a sort of incentive to collaboration, as an exchange whose participants benefit from being together (Sennett 2013).

In other words, this type of trust implies certain behaviour that is meant to be reciprocated, because otherwise it will no longer occur to the original lender.

Civic capital has a framework of *social norms*, as the result of a certain culture established over time in communities and groups, which are also transmitted by the effect of family education, norms that imply forms of sanction for those who do not respect them, at least in the form of the absence of reciprocal behaviour.

A further dimension of trust capital is the *moral dimension*. In this case the relationship is rooted in the ground of moral norms, that is, the values that guide human behaviour without resulting in sanctions if fair behaviours are not reciprocated. Therefore, there are *internal rules* that encourage people to conform to virtuous behaviour, in a sort of commitment with the aim of achieving a common goal. *In this case, the cultural aspects are absolutely predominant*.

Moral capital, through an act of gratuity, creates a bond with other people without expecting to be reciprocated. It implies forms of altruism, a willingness to make a personal sacrifice to procure benefits for others, responding to a more general principle of justice and equity, which has its roots in personal beliefs, forged by the family, and also by the more general culture, although it may not involve an increase in well-being (and welfare) of people (Sen, 2000).

This digression introduces a useful scheme to evaluate the development policies implemented in a logic of institutional order, which is linked to the development map presented in chapter 4.

In order to produce virtuous effects, *a (virtuous) circuit must be established between (civil) development policies, entrepreneurship and market*, but there must also be a mutual dependence between the stock of fiduciary/trust capital and the institutional system, *according to a process of institutional sustainability that has feedback effects*. In the stock of fiduciary capital it is necessary to take into account all three dimensions of social, civic and moral capital (Figure 2).

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[4] If we look closely, the aspect of reciprocity and mutual benefit is at the basis of the same market transactions, and according to some authors, it represents the real *telos* and provides its justification also from an ethical point of view, representing a sort of moral attitude and in this context the predisposition to trust and give reliability acquire the importance of moral virtue. Ref. Bruni, Sugden (2013), p. 156.

Figure 2 – The circuit of regional development policies according to the civil entrepreneurship approach

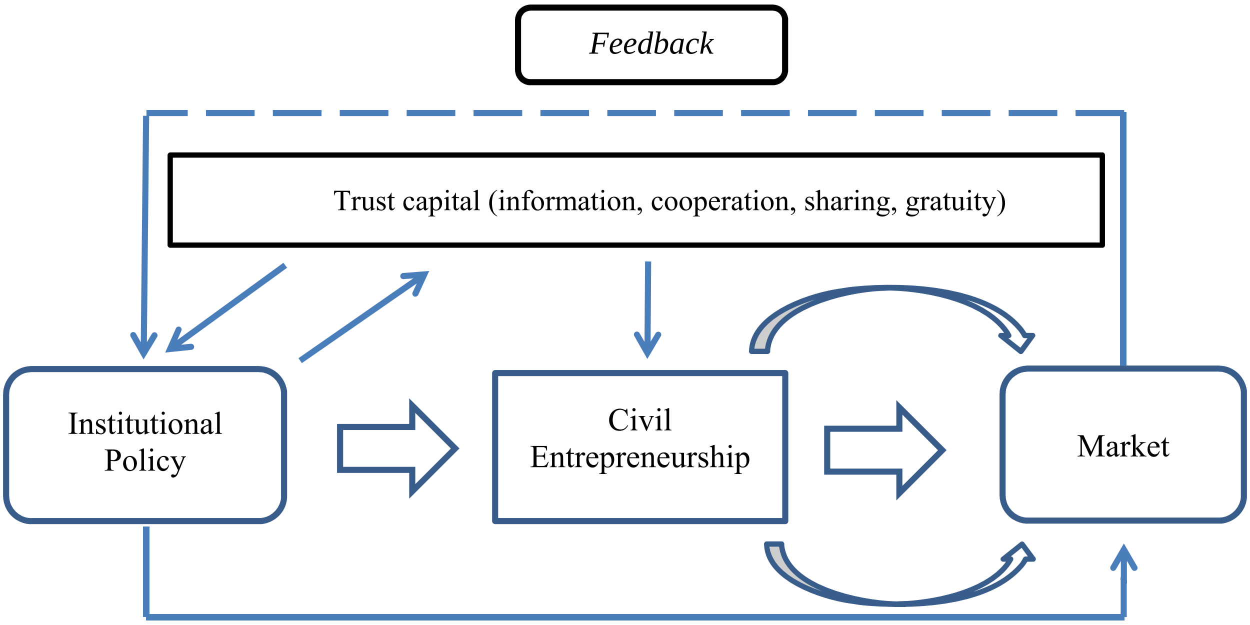

Figure 2 *shows a process-based model, in which development policies interact – in turns – with the institutional system of an economy, aiming at discovering business opportunities through the expansion of the degree of freedom and the entrepreneurial capacity of companies*. In addition, there are complex effects of influence between institutional policies and trust capital, which also pass through the cultural background that characterizes different regional realities.

In brief, *the final goal of policies generated according to this approach is to influence the market by impacting on companies' competitiveness, since the market plays a central role in encouraging structural change in economies*, through the enhancement of endogenous endowments to different production contexts (Lin 2012). Therefore, the *market becomes an element of comparison*, which also helps to assess the efficiency of the policies themselves, because it ensures the permanence of the policies' effects over time, and also their self-sustainment, *according to the logic of institutional sustainability*.

To guarantee the functioning of this circle it is not enough to remove the obstacles to the free functioning of the market (technical approach: freedom "from" and freedom "of"), because on the contrary (as demonstrated in several cases: Rodrik, 2009; Rodrik, 2004; Rodrik, 2006) this could even have counter-productive effects on the productive diversification capacity of an economy.

After all, the market itself assumes an important role not so much (and in any case not only) as a competitive arena for comparing costs and prices, but also as a social institution: a place of sharing and reciprocity (civil approach), where business projects meet themselves (and perhaps even confronting each other). A perspective purely based on competition, seen as the elimination of constraints and barriers, without considering the overall links, could risk to jeopardise the long-term performance of a production system, because it undermines not only the reasons for economic-productive convenience, but above all, social convenience, therefore obstructing positive developments for the future.

In brief, regional policies for civil development should establish as a priority objective the growth of freedoms/capacities of enterprises[5]. Therefore, their primary objective should be firstly qualitative, and then also quantitative, in terms of change in the production mix and stimulus to a greater regional competitiveness. In this process, the relationship between the institutions and the market is very strong, and we can believe that both are the result of a mutual evolution circle strongly dependent on the situation of local contexts (Altobelli, Esposito 2014).

For this reason, *regional development policies must have a strongly contextualized approach* and cannot respond to the uncritical repetition of standard principles detached from the specific characteristics of local processes, just because some policies have worked well in other contexts.

6. Concluding remarks

In this work it has been highlighted that the interruption of the regional convergence processes is questioning the policies followed up till now and motivates the hypothesis of new routes.

Some elements for a different approach to regional development policies have been outlined. *Starting from concept of civil economy, regional policies should aim to enhance the role of trust capital and the stimulus to an entrepreneurship oriented to civil values*. This kind of approach tends to favour the development of freedom (in extensive sense) and entrepreneurship, and also highlights the role of the market as a place where different business projects meet, responding to a logic of *common rationality*.

This approach has a generative character, because it activates not only economic processes, but also social ones, aiming to reconcile the principle of efficiency that is the basis of businesses (and under many aspects also of markets) with the fair distribution of wealth.

The circular process of regional development policies that has been presented in this work starts from the enhancement of the fiduciary/trust capital and the system of informal rules (social and moral) widespread in the society. At the same time, it leverages the important role of the market, to define a policy design that has the character of institutional sustainability, being able to activate a process meant to continue and to self-sustain in the future.

A process of this kind must be strongly contextualized to the individual territories, it involves a careful analysis of the socio-economic characteristics of the context (Esposito, Musso 2016) and requires continuous action by the institutions to grow trust capital, which is one of the elements that contribute to fuelling a form of entrepreneurship that can be defined as "civil".

This is how the role of public institutions is relaunched for interventions aimed at fostering regional convergence processes, not only in terms of product, but also of overall well-being and disposable income. Therefore, regional policies to promote competitiveness are also linked to the consideration of aspects of income re-distribution that relate to social equity.

To the extent that policies of this type reduce also inequalities in disposable income, they also contribute to greater stability in growth (Cingano 2014), as well as to the strengthening of

[5] In this way, *a generative approach to development* is affirmed, understood as an increase in value linked to the freedom of people in an intergenerational sustainability logic. Also from this point of view, the question of the policies institutional sustainability emerges. Such a perspective also implies a rethinking of the role of institutions in the name of greater polyarchy and subsidiarity (Magatti, Gherardi 2014, p. 145). The latter should be understood not only in terms of horizontal subsidiarity, but as a true *circular subsidiarity*, such as objectives sharing and "doing together" actions.

trust capital, because they sustain the possibility for people to make improvements in their "future".

Development - especially regional development - therefore represents a complex process where different economic and social components cannot be kept separate, and also involves a reflection over the forms of capitalism, as Nobel Prize winner Joseph Stiglitz (2016b, p. 136) claims: "Reducing inequalities (of all kinds) is essentially a political issue and we are not forced to choose between capitalism and equity. We have to choose both".

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