

REGIONAL ECONOMIC POLICY AND LOCAL ENTERPRISE

Frank Stilwell

The last decade has seen a weakening of the commitment by the state in many capitalist economies to regional economic policy. Simultaneously there have been some interesting initiatives which may be broadly classified as comprising a 'local enterprise' approach to regional development. The characteristic focus has switched from policies for the redistribution of industry to the generation of local industrial development. Two countries where this change has been particularly pronounced are Great Britain and Italy, both of which have long-standing problems of North-South inequality but have also featured new forms of dynamic local economic development. Their experience deserves careful analysis, including the implications for Australia.

Whatever Happened To Regional Economic Policy?

The case for regional economic policy as an element in a reformist political programme is well established. It typically rests on a combination of arguments about social equity, economic efficiency and political integration. **Social equity** requires, *inter alia*, policies to generate greater geographical evenness in *per capita* incomes and the distribution of life chances. **Economic efficiency** requires that policies for expansion be targeted at regions with unemployed resources in order to generate economic growth. **Political integration** requires that the central government attempt to reduce regional economic disparities which might otherwise provide the basis for acute conflicts within the nation state. Other considerations have also been of historical significance, such as achieving a population distribution which minimises the vulnerability to military attack. Concern with environmental preservation may also find expression in the form of regional policy. However, the issues of equity,

efficiency and integration comprise the triple foundations of the conventional wisdom. It is hard to think of developed economies where it has not been accepted by governing bodies; and implemented more or less vigourously through the establishment of systematic policies to influence the geography of economic activity.

However, the rationale for state intervention in shaping the broad pattern of regional economic development has been under attack in the last decade. A parallel may be drawn with the status of Keynesian policy, an approach to macroeconomic management with which conventional regional economic policy has a close relationship. Put simply, regional policy may be regarded as its disaggregated equivalent - a means of generating full employment and/or avoiding inflation through state manipulation of the level of effective demand at the regional level. Indeed, regional policy can be regarded as a necessary adjunct to macroeconomic policies for stabilisation and economic growth, because of its role in evening out the spatial pattern of demand and supply in labour and housing markets and thereby alleviating a principal source of 'stagflation'. This seemingly comfortable combination of regional policy and macroeconomic policy, previously accepted as the official basis for policy (albeit not always systematically implemented in practice), is now out of favour. It is worth reflecting on some general reasons for the apparent turn-around.

First, it is commonly noted that the experience of regional economic policies has proved disappointing. Of course, there are massive conceptual and empirical problems in disentangling the effects of explicit regional policies from the effects of other policies whose spatial impacts are implicit. Thus, it may be that the effects of explicit regional policies are swamped by the spatial effect of other national policies, such as the use of tariffs. Likewise, it is difficult to distinguish the effects of regional policy without knowing what would have happened to the pattern of regional economic activity in the absence of such policy. It is nevertheless disappointing that major regional economic inequalities have persisted in many countries despite sustained efforts to redress them through systematic regional policy measures.

Second, regional economic policy has its costs. There is a direct cost to public funds through expenditure on infrastructure subsidies, workforce retraining, information and administrative agencies, and so forth. Also

regional policy may involve an indirect cost to the extent that economic growth in the policy-favoured regions is at the expense of economic growth or levels of public service provision elsewhere. This has been a long-standing concern of the critics of regional policy, and currently flourishes in circumstances of fiscal conservatism.

Third, the general economic conditions since the mid-1970s have provided a less favourable milieu for the application of regional policies. It is more difficult to justify selective policies to boost the level of economic activity in some regions when **all** regions feature substantial, albeit unequal, levels of unemployment. Since regional policies are characterised as policies of fine-tuning - of re-allocation and redistribution - it is not surprising that they have been subordinated to policies aimed at generating the conditions for capital accumulation and economic growth in the aggregate.

Fourth, it is also evident that **qualitative** changes are taking place in the structure of capitalist economies. Restructuring typically involves changes in the organisation, location, technical and sectoral composition of capital, as well as changes in the labour process. Demands for 'flexibility' in production are increasingly the order of the day, and this does not sit comfortably with the emphasis on stability and equity in conventional regional policy. Establishing the conditions for renewed capital accumulation in the context of the new international division of labour and modern technology is a traumatic process. It relies more on the generation of new industries ('high tech', 'sunrise', 'information based') than on the spatial redistribution of existing ones.

Finally, the ascendancy of 'new right' ideologies also helps to explain the partial demise of regional policy as a reformist measure. In the words of one British writer,

...for the free market economist, local decline simply reflects the inevitable changes which must take place in a healthy economy: any attempts to reverse decline by interfering with the free play of market forces, far from helping, may well make matters worse. (Morrison, 1987)

In an only slightly less doctrinaire form, those (like Australia's Industries Assistance Commission) who stress the need to 'facilitate structural change' typically represent regional policies as equity-oriented 'welfare' policies. The latter policies are represented as a luxury which cannot be

currently afforded. Worse, they act as a constraint or 'market rigidity' impeding the necessary economic adjustments.

The relevance and intensity of these tendencies varies from country to country. We proceed by examining the two cases of the United Kingdom and Italy. In their different ways, both have had substantial experience of policies to redress broad North-South imbalances in patterns of regional economic activity. A brief assessment of these experiences provides a basis for subsequent examination of more recent policy initiatives, and for putting recent Australian experience into perspective.

(a) United Kingdom

The origins of British regional economic policy go back to the inter-war years, but it was during the three decades after the Second World War that more systematic measures were developed. What had been known as the 'special areas', and, later, 'development areas' were the beneficiaries of various measures to redirect employment-generating economic activity. Early debates about the relative merits of taking 'workers to the work' or 'work to the workers' were seemingly resolved in favour of the latter strategy, and the government established various measures to re-direct the pattern of industrial development.

However, there have been very significant changes since the 'high tide mark' of regional policy in the 1970's. The range of areas designated for assistance has been reduced. Before the Thatcher government's policy changes of 1979, the assisted areas encompassed about 40 per cent of the working population, including all of Northern Ireland, Scotland, Wales, the North most of the North East, Yorkshire and Humberside and parts of Cornwall in the South West. In 1979, and again in 1984, this coverage was cut back substantially, the development areas being more narrowly defined in terms of the heaviest unemployment blackspots, with intermediate areas qualifying for less assistance.

Second, there has been a significant reduction in the level of financial assistance. Total expenditure on regional policy by the Department of Industry fell in real terms by approximately two-thirds between 1975 and 1984 (from nearly 1.6 billion to less than 0.6 million in 1985 prices). The policies announced in 1984 committed the Conservative Government to a further phased reduction in funding. Traditional policy, it was argued,

had resulted in indiscriminate assistance being provided where it was not needed to influence location, most notably in respect of projects related to North Sea oil. The stated objective was to cut spending on regional programmes by almost 300 million a year between 1984/5 and 1987/8. In fact, 513.5 million was distributed in the year to March 1987 as against 358 million in the previous twelve-month period. However, a commitment to further cuts was made in 1987 and the Trade and Industry Secretary announced a further review of whether the aid to the regions can be 'better targeted' - a euphemism for further expenditure reductions. (Gribber, 1987).

Third, there have been significant fluctuations in the balance between capital and labour subsidies. During the 1960s and 1970s when the Regional Employment Premium was operative, the emphasis was on the reduction of labour costs to employers with a view to encouraging the maximum employment growth. However, before, during and since that period there have also been a range of capital subsidies, giving an incentive to the application of capital-intensive methods of production. In the 1980s, the latter policy thrust has been completely dominant, leading to concern that labour-saving technology has been emphasised when the immediate need is the reduction of unemployment.

Thus, there has been a reduction in the breadth of regional coverage and in the resources committed to the policy, coupled with a greater emphasis on subsidies to capital-intensive rather than labour-intensive production. Not surprisingly, analyses of the effectiveness of regional policy in recent years suggest little, if any, job-creation effect. The author of one investigation concluded that regional policy 'had ceased by 1976 to exert a measurable impact on the geography of manufacturing employment change in Britain.' (Fothergill & Gudgin 1982)¹ There is no systematic evidence of any reversal in the last decade. As we shall see in the next major section of this paper, this partly reflects a change in focus of explicitly spatial policies towards inner-city problems and other more localised issues.

In brief, while regional policy is not completely dead in Britain, it no longer addresses the broad North-South economic inequalities as it did

1 Another study indicated approximately 250,000 manufacturing jobs generated in the assisted regions between 1960 and 1973 but no discernible positive impact of policy in the years since 1973. (Keeble, cited in Fothergill and Gudgin, 1982).

during the 1960s and 1970s. Meanwhile regional economic inequalities continue to widen, with increasingly stark contrasts apparent both in the labour and housing markets. In the labour market, for example, employment in the 'South' (comprising the South East, East Anglia and South West regions) grew by 356,000 jobs between 1979 and 1986, while in the 'North' (comprising the remainder of the nation) 1,101,000 jobs were lost over the same period. (Martin 1987). In the housing market the widening price differentials between South and North have the effect of inhibiting the inter-regional migration that might normally be expected in such circumstances. The outcome is a process of polarisation - the spatial expression of a divided nation.

(b) Italy

Italian dualism is the geographical reverse of that in the UK, with the poorer regions being to the South. The wealthier regions, with their technologically advanced industrial enterprises like Fiat and Pirelli are in the North, closer to the hub of European economic development. As a recent book notes, this 'economic dualism ... is woven into the fabric of Italian economic life'. (King, 1987). Overcoming the problem of Southern 'backwardness' has been a consistent theme in Italian public policy since the unification of the state. In this respect the Italian North-South problem is longer standing and of greater intensity than in Britain. In the latter case, the problems of the North can be interpreted in part as a consequence of its spectacular (but unbalanced) industrial development in an earlier period, particularly in the previous century; in the Italian case the problem of the South has been more clearly one of regional underdevelopment.

There is also a contrast with the UK in the character of public policies which have been developed by the Italian state to address the regional imbalance. Broadly speaking, the contrast is between British attempts to



fine-tune the role of the market in shaping locational choices, and an Italian approach which may be characterised as 'state-managerial'. Whereas UK policy instruments have typically involved adjustments to market prices through subsidies to capital and labour, the Italian policy has been distinctive in its focus on the role of a major state institution, the Cassa per il Mezzogiorno, and on the role of public enterprise as a direct engine of regional development.²

The Cassa per il Mezzogiorno was established in 1950 and, after an initial emphasis on rural policy (land reform, reclamation, provision of infrastructure for remote farming areas) sought to attract industrial development to the South. The obvious objective was to redress the inadequacy of local manufacturing and the dependence on industrial products imported from the North. However, given the enormity of the assisted region (including Sardinia and Sicily as well as all of mainland Italy South of Rome) some degree of selectivity proved to be essential. Industrial areas were targeted for major industrial expansion, while industrial nuclei, usually based on smaller towns, were the intended focus of more modest and smaller-scale industrial development. This was an attempt to apply the 'growth-pole' concept, to generate external economies and cumulative growth through concentrating the policy stimulus on particular areas. However, the multiplicity of industrial areas and nuclei in practice, numbering 48, was more a consequence of the desire of the Christian Democratic Party, via the Cassa, to maintain widespread local political support. The Christian Democrats used the instruments of regional policy to pursue short-run electoral support and to build political indebtedness among the large-scale private industries in the South. The proliferation of assisted localities vitiated against the effectiveness of the growth pole strategy.

Over the 35 years of its existence, the Cassa used a wide range of policy instruments to attract industrial activity to the region. The most important

2 The contrast is not absolute, since British policy in the 1960s and 1970s also involved limited use of public planning agencies such as the Regional Economic Planning Councils (established by the labour Government in the 1960s) and some direct controls, such as the restricted issue of Industrial Development Certificates (IDCs) and Office Development Permits (ODPs) for businesses seeking to locate in the more prosperous regions. On the other hand, Italian regional policy, like British regional policy, has involved the widespread use of financial incentives, including capital grants, low interest loans and tax concessions, as a means of raising expected profit rates of new businesses and thereby steering industry to the policy-favoured regions.

included the development of credit agencies, the formation of a new public share-holding company (IN-SUD), and the provision of grants and infrastructure improvements. Its policies were augmented by a new inter-ministerial planning committee (CIPE) to direct industry to the South through control over all large scale industrial development. The growth pole strategy was also widened in the 1970s by an attempt to spread industrial development along 'axes of penetration' so that the 2 million Southerners living outside designated industrial areas and nuclei might share in some of the benefits.³

However, the most distinctive feature of the policy instruments was the use of public-sector enterprises. Italy has had a major state sector, especially since Mussolini's time, particularly in heavy industry. An act of 1957 required that nationalised and state holding-companies locate at least 60 per cent of all new investment in the South. In the 1970s, this proportion was raised to 80 per cent. The two major state industrial groups, I.R.I. and E.N.I. first saw these guidelines as an unwarranted encumbrance on managerial discretion, but they came to be an accepted parameter of investment planning. Among international writers, Stuart Holland was particularly enthusiastic about this experiment in using 'state capitalism' to address the problems of uneven regional development. (Holland, 1976:Ch 8).

Evaluations of these policy measures paint a fairly consistent picture. The volume of industrial investment in the South increased sevenfold in the period 1951-75, compared with a twofold increase in the North-Centre of the country, (the latter starting from a much higher base of course). (King, 1987:186). The visitor to the South is struck by the sheer scale of some industrial projects, such as the petrochemical plants at Brindisi and to the north of Siracusa in Sicily. However, various problems recur.

First, the large-scale industrial projects have been highly capital-intensive and the sectoral concentration is intense.⁴ Nearly three-quarters of jobs generated are in just three industries - chemicals, mechanical engineering and metallurgy - with relatively little development of small and medium-sized firms supplying local markets with foodstuffs, clothing and furni-

3 For further discussion of the Cassa and its influence on the Southern economy (King, 1985).

4 One estimate suggests an average capital expenditure per new job in the chemicals and metallurgy industries of over \$25,000 per job.

ture. 'Cathedrals in the desert', with their lack of inter-industry linkages, multiplier and other secondary effects tend to characterise Southern development.

Second, such development as has occurred has often been dependent development, characterised by branch-plant 'outposts of the northern economy'. (King, 1987:191). In general, industry has continued to be dependent on the North for managerial functions, research and development and finance.

Third, there have been problems of environmental degradation associated with the development of heavy industry (albeit less than in the Milan-Turin-Genoa area in the North West). These impose obstacles to the development of tourism in the region.

Finally, and partly as a spatial expression of the first two of the foregoing tendencies, there has been a widening set of regional economic inequalities **within** the South. Some areas such as Naples-Caserta-Salerno and Bari-Brindisi-Taranto experienced marked industrial growth in the 1960s and 1970s, capturing some 116,000 of the estimated 305,000 Cassa-induced industrial jobs in the period 1957-80. (King, 1987:186). This is what Augusto Graziani has termed the 'productive Mezzogiorno'. (Graziani, 1983:79-85). Elsewhere the dominant characteristics are a dependence on remittances from emigrants ('the emigrant Mezzogiorno') or on unemployment benefits and pensions to supplement income from a poor rural economy littered with abandoned farmhouses ('the subsidised Mezzogiorno'). It is tempting to add a fourth category based on the Palermo-Catania-Agricento triangle, in which revenue from drugs has been a key factor ('the Mafia Mezzogiorno').

Overall, the unemployment rate in the South remains well above the national average (to the extent that official figures have significance in a country noted for its extreme proliferation of activities in the informal sector or 'black economy'). (Mattera, 1985:Ch 7). Indicators of social development and living-standards in the South show some catch-up, but the overall experience has been disappointing. Growing disillusionment with the bureaucratised character of the planning machinery has further eroded political support for the policy. Long-term funding ran out in 1981 and the Cassa finally went into liquidation in 1984 when parliament declined to authorise its continued existence. The issue of Southern

development has effectively been passed over to the EC as part of the community's broader regional policy.

As with the United Kingdom, the concern with regional policy has seemingly been relegated below other macroeconomic policies in a period of major economic dislocation and structural change. This is not to say that the issue is dead, since concern with regional development is a feature of EC policy. Indeed, it now becomes a major component in the relationship between the EC and the member states. However, within the individual states the dominant concern has shifted to the fostering of new forms of local economic development. It is this matter to which we now turn.

From Regional Policy to Local Enterprise

The dominant concern with North-South inequalities has diverted attention away from other dimensions of inter-regional and intra-regional imbalance. Within relatively prosperous regions, for example, there are frequently pockets of economic and social deprivation. The British inner-city problem is an obvious case in point: registered unemployment levels in inner-London areas have rivalled and sometimes exceeded the general levels prevailing in the Development Areas. Equally important, there is growing evidence that contemporary economic development typically involves the growth of industrial enterprises away from the major cities. This is a major change in the pattern of rural-urban development which affects both the prosperous regions and the poorer ones. In the Italian case, the focus on North-South similarly obscures the very important diversity of experience within each area. In the South, as we have seen, intra-regional inequalities have widened, while in the North, as we will see, there is a very significant divergence between the prosperity of the established large-scale industrial areas and other regions characterised by dynamic small-to-medium-scale business. These observations suggest the need for a reassessment of regional economic policy, even within its own reformist terms of reference.

More fundamentally, these terms of reference have come increasingly into question. This is not principally the result of left-wing challenges which question the limited capacity for reform through the policies of the capitalist state. Rather, it is the result of the ascendancy of right-wing

ideologies in the context of the crisis of liberal-Keynesianism management. In the current context, four points are important in understanding the character and influence of these ideologies. One is that the emphasis on the proper role of the market as a resource allocator is typically coupled with a (not evidently consistent!) view of the state as providing the general conditions for capital accumulation. The latter requires measures to reduce the power of organised labour and to provide infrastructure at minimal direct cost to capital. It stops short of explicit policies to re-direct capital to where it would otherwise not wish to go. Second, there is a characteristic emphasis on the stimulation of entrepreneurship. This is manifest in a policy approach which seeks to generate additional growth of local economic activity in the regions rather than to steer it between regions. Third, in circumstances of general economic recession, such ideologies have widespread appeal, as all regions require the mobilisation of unemployed resources. Finally, the emphasis on creating the economic conditions for capital accumulation is married to a recognition of the role of the state in the legitimisation of the economic and social order, resulting in policies being targeted towards local areas where the population might otherwise generate political instability e.g. the British 'inner-cities'.

The totality of these considerations is associated with a significantly different approach to regional policy in the 1980s, one which reflects a new era of capitalist economic restructuring, state activities and regionalist responses. Again, we can explore this trend a little further by reference to the British and Italian cases, thereby bringing out important contrasts as well as similarities.

(a) United Kingdom

In the words of one writer for the right-wing think-tank, The Centre for Policy Studies, 'the complex of problems with which policy must deal today is very different from the 'regional problem' which, implicitly or explicitly, has underlain policy for the last 45 years". (Hallett, 1981:28). The statement is revealing for its emphasis, not on the withdrawal of the state from the area of regional policy, but the changed character of policy. A major element of this has been a move away from a welfarist, equity-oriented approach at the broad regional scale to a more narrowly defined efficiency-oriented approach to the encouragement of local enterprise. Its

most obvious expression is in recent concerns with policy for the 'inner-cities'.

The commitment to dealing with the problem of the inner-cities was made by Mrs. Thatcher immediately after being re-elected in 1987. It was a rather belated recognition of a set of economic and social problems which had been the focus of various enquiries and reports for at least the preceding decade. (Hall, 1981). Many inner-city areas have had high unemployment (due partly to decentralisation of manufacturing industry), concentrated working class populations with high proportions of immigrants, inadequate social services and a deteriorating housing stock. Importantly, from the viewpoint of regional policy, the problem inner-city areas exist in both Northern and Southern cities. The conventional policy instruments designed to steer economic growth to the Development Areas had done nothing for areas like inner London and had probably exacerbated the difficulties. Equally, those conventional regional policies had not differentiated between inner areas of notorious social and economic deprivation, such as in Liverpool and Glasgow, and other areas of relatively greater prosperity within the policy-favoured regions.

Concern with the inner-cities also has a more explicitly political dimension for a Conservative Government: they remain heartlands of support for the Labour Party. When Mrs. Thatcher said after the 1987 election that she would have to 'do something about the inner-cities', there was little ambiguity about the political character of her intentions, given her general commitment to 'scorch socialism off the face of Britain'. (Young & Sloman, 1986:142). Moreover, the inner-cities have been the focus of obvious social discontent. A sequence of street riots in various British cities in the early 1980s had already generated demands for the amelioration of their problems and/or stronger police control as a means of restoring social stability. (Rees & Lambert, 1985:Ch 2).

The problem facing the government has been knowing how to address the inner-city issue. Many general economic and social policies impinge on its severity although many of the policy measures do not have an explicit spatial dimension.⁵ Explicitly spatial policy measures have included the

5 eg. stronger policing, policies to restrict the expenditure powers of local government, requiring local government to sell off its stock of council housing, changes in the eligibility rules for social security payments and training schemes operated through the Manpower Services Commission.

'task-force' approach (implemented in Liverpool after the riots in an attempt to co-ordinate local employment-generation), the creation of 'enterprise zones' and of Urban Development Corporations. (Morrison, 1987; Gurr & King, 1987). There have also been other schemes to encourage small business, such as the Enterprise Allowance Scheme and Business Expansion Scheme, but, to the extent that these have a spatially discriminatory character, they appear to have favoured the more developed regions. (Mason & Harrison, 1987). It is still early for a definite assessment of the overall effectiveness of the various policy measures in bringing about a turn-around in the economic conditions of the inner-city areas. Nevertheless, the following comments pick out some common concerns and characteristics.

First, the policy measures do not focus on constraining the use of capital (including decisions regarding its location) in order to ensure more socially-spatially desirable outcomes. Rather, the emphasis is on liberating capital in certain areas from conventional policy restrictions which embody those broader social objectives. 'Enterprise zones' are the obvious example. There are eleven of these, not only in inner-city areas but also areas on the periphery of large conurbations. Businesses locating in these zones are offered a mixture of fiscal benefits (such as exemption from local rate payments) and administrative simplifications (such as exemption from local planning regulations).⁶

Second, such consultative machinery and democratic decision-making as is involved in the policies, as in the case of the 'task force' approach, has proved to be subordinate to the dictates of the market. Effective regeneration is seen in terms of creating the conditions for competitive capitalist accumulation; the sweatshop rather than the planned growth of inter-linked enterprises is the characteristic form of economic development.

Third, initiatives such as 'enterprise zones' do not necessarily benefit the local inner-city people. In that sense they are locationally-specific, oriented to improving the areas rather than at the people who have traditionally lived there. Such jobs as have been created - and these are disappointingly small when 'boundary-hopping' moves are excluded - frequently are taken up by people who do not live in the locality. (Jacobs,

6 One sceptic has claimed that, contrary to declared intentions, they have become 'an exercise in government intervention and public subsidy'; (Keating, 1981).

1988). Simultaneously, the increased housing rents in such designated areas have adverse effects on the economic welfare of the disadvantaged social groups remaining there. Social conflicts over such issues have been given considerable publicity, especially in respect of the Isle of Dogs 'enterprise zone' in London's docklands. Critics refer to the programme as solving the inner city problem at the expense of the inner-city residents. (Ambrose, 1986:Ch 8).

(b) Italy

Contemporary concern with Italian economic development has also undergone a major transformation. The patterns of regional development have themselves taken on a more complicated pattern, quite apart from the effects of state intervention via regional policy. The key feature is the development of new forms of dynamic growth in the Centre-Northwest.

The traditional Italian North-South pattern, in which the Centre was typically characterised as having intermediate characteristics between the backward South and the prosperous North, is no longer applicable. The development of 'three Italies' has been acknowledged at least since the work of Bagnasco. (Bagnasco, 1981:40-44). The previously dominant industrialised area of the North-West - based on the Milan-Turin-Genoa triangle - has experienced contraction in many key industries in the last two decades. The Centre-Northeast, in contrast, has been characterised by dynamic growth and a steadily rising share of national value-added and employment.⁷

In seeking to explain the relative success of the Centre-Northeast, particular attention can usefully be focused on the Bologna model. The Centre-Northeast comprises a diverse set of regions, with varying degrees of economic prosperity, but the medium-sized city of Bologna (in the region of Emilia-Romagna) has been the focus for particularly striking economic development. What are the main characteristics?

- The industrial enterprises are typically small-scale rather than large-scale. The overwhelming majority employ between 10 and 100 persons. (King, 1987:198-200). Many are organised as co-operatives.

7 The Centre-Northeast comprises the regions of Tuscany, Umbria, Marche, Emilia-Romagna, Veneto, Trentino-Alto Adige and Friuli-Venezia Giulia.

- Production is largely independent of the big established industrial enterprises, such as those traditionally located in the Milan-Turin-Genoa triangle.
- The emphasis is on 'quality' goods. Characteristic industries include fashion clothing and footwear, furniture, processed foods and customised mechanical products.
- Production is flexible, often involving short production runs geared to short-term and fluctuating markets. Sub-contracting among the small-to-medium sized enterprises is conducive to this flexibility.
- There is a strong emphasis on 'servizi reali' - intermediaries based typically on cooperative inter-firm agreements and semi-public agencies. (Bianchi & Mazzonis, 1986). A classic example is Centro Informazione Tessile dell Emilia-Romagna, an information and research centre for the textile industry centred on Carpi in the Emilia-Romagna region, to which 480 companies and all major industrialists' and handicraft associations belong. (Bianchi, 1987). Through the provision of information on markets and technology, such 'servizi reali' play an essential co-ordinating role.
- Finally, the social structure of the region is important in its success. A tradition of independent and relatively prosperous farming, and a fairly well established craft tradition and local petit-bourgeoisie have provided a foundation for this particular model of economic development. (Of course, this is of considerable relevance in assessing the prospects for the 'portability' of the model to other regions.)

There is continuing controversy about the attractiveness of the model. Russell King argues that the regional characteristics of 'prosperous farming, rural social stability, widely scattered industries, ... and varied tourist and tertiary activities offer a vision which is immensely more powerful than the urban congestion, working-class alienation, industrial decline and environmental pollution of the North-west or the triple evils of rural degradation, industrial bankruptcy and political corruption prevalent in the South". (King, 1987:200) There are nevertheless major differences within the Centre-Northeast region. The characteristics of Bologna do not apply equally, for example, in the Friuli region with its much lower level of economic prosperity. Elsewhere the Bologna model is characterised as involving 'the kind of production in the years leading up to the English industrial revolution'. (King, 1987:199). This sounds rather less attractive and suggests a parallel with enterprise zones in the UK. King also emphasises the key role of cheap labour, especially female, leading to the conclusion 'that basing an economic revolution - if such it is - on sweated labour and tax evasion is hardly to be praised'. (King, 1987:202) The

position of labour is of crucial importance - Storey and Johnson, for example, dispute the contention that cheap labour is a key element in the model. (Storey & Johnson, 1987) Moreover, the durability of the model is threatened by diminishing reserves of marginal labour, rising land prices and increased competition in export markets. Some see it as a model limited in applicability to a transitional period of economic restructuring. (Murray, 1987:84-95; Sabel, 1982; Brusco, 1982)

Whatever the strengths and weaknesses of the Bologna model, it shows the possibility of rapid regional economic development in an 'intermediate region' without a major role being played by the central state. It is a story of regional development in which the conventional form of 'top down' regional economic policy is actually quite a minor ingredient. This is not to say that the state has played no role: the local state has been active in facilitating the development of cooperative enterprise and information agencies. Indeed, it is not without its ironies that the success story of industrial enterprise should be associated with 'red Bologna' which has been consistently governed by the Italian Communist Party (PCI) for longer than any other Italian city.

Lessons for Australia?

Analysis of international experience, with particular reference to the UK and Italy, has identified some of the reasons why broad North-South regional economic policies have been scaled down in recent years. We have also seen that there has been a growing emphasis on more localised schemes for regional development, typically based on the development of small business. The final issue to which we now turn is the significance of these developments for Australia. Are there any similarities with the overseas experience and what lessons can be drawn from that experience?

There are some apparent parallels, particularly regarding the relative demise of broad-based regional policy by the national government. This shows up through a comparison of the policies of the Labor governments under Whitlam (1972-5) and Hawke (1983-9). In the former case, regional policy was a key element in a broad reformist programme. The Department of Urban and Regional Development's policy interventions constituted the first major attempt to address regional development at the national level since the flurry of interest that had occurred while the

Chifley Labor government was in office in the 1940s. (Lloyd & Troy, 1981). However, the major policy focus of DURD was on dealing with the accumulated problems of growth **within** the major metropolitan areas than with broader patterns of regional development. The major exception was the 'growth areas' programme, aimed at building up areas like Albury-Wodonga and Bathurst-Orange as alternatives to the dominance of the existing metropolitan areas. In financial terms, only \$140 million of the \$562 million expenditure by DURD in 1972-5 was 'regional' rather than 'urban'. (McLoughlin, 1987)

Even this level of policy commitment has been beyond the concern of the Hawke government. The 'economic rationalist' focus of policy on wage restraint, financial deregulation and balance of payments problems dominates other aspects of the government's political practice. Many of the factors cited earlier in connection with international experience - the demise of the official liberal Keynesian policy commitment, the fiscal crisis of the state, generalised unemployment across all regions, the emphasis on economic restructuring through the operation of market forces - have also operated here to vitiate against selective regional economic policy.⁸ Regional restructuring remains largely the prerogative of capital.

On the other hand, there is little evidence of the emergence of a 'local enterprise' approach comparable to that which we have described in the United Kingdom and Italy. Certainly, there have been regional expressions of concern about the social costs of economic restructuring. Trade union and community groups have formed in areas such as the Hunter Valley, the Illawarra Region and the La Trobe Valley. The Leader of the Labor Opposition in New South Wales has rediscovered decentralisation policy as a political issue. Concern with marginal electorates in non-metropolitan areas a political basis for a comparable resurgence in Victoria. However, there is no obvious equivalent to the Bologna model. Neither has there been any development of 'enterprise zones' along the British lines. In opposition, the Liberal Party in New South Wales declared a commitment to the 'enterprise zone' concept, but it is too early since its 1988 electoral success to assess the likelihood of that policy coming to fruition. What it has borrowed from the UK experience is the 'task-force'

8 Reports prepared for the Federal government on the issue have tended to subordinate considerations of regional policy to structural change.

approach to dealing with problem regions, such as Newcastle and Wollongong. Elsewhere, there has been little interest in emulating the Thatcherite experiment, while the Italian experience is little known and not generally perceived to be relevant to Australian industry.

The principal exception to the foregoing generalisations has involved the Federal government's establishment of plans for particular industries, such as steel, cars and textiles, clothing and footwear. The steel industry plan was, in effect, also a regional plan, given the spatial concentration of the industry in the three towns of Newcastle, Wollongong and Whyalla. No doubt, the localised unemployment and related hardships - and their forceful political expression - were a major impetus to the attempted rescue operation for the industry launched in 1984. The car industry plan is the opposite case in that it calls for a planned reduction in the number of manufacturers and product models, rather than a maintenance of the existing contours of the industry. Obviously, its successful implementation would have major regional consequences, given the dependence of localities such as Adelaide and Melbourne on vehicle manufacturing. Likewise, employment in the textiles, clothing and footwear industries has a distinctive geographical pattern, with particular concentration in small-to-medium sized towns with little alternative sources of employment. The phased reduction in that industry which will be consequent on lowered tariffs will undoubtedly have adverse regional consequences. If nothing else, these cases highlight the problems of an inadequate integration of industrial and regional policy.

However, it is notable that there has been growing interest in local employment initiatives. An advisory group established by the Federal Minister for Employment and Industrial Relations reported in July 1987 on the role which the Federal government could play here, in conjunction with State and local government, trade unions and community organisations. Its report strongly emphasised the need to encourage job-creation through stimulating new businesses including cooperatives, municipal enterprises, community businesses and 'socially focussed enterprises'. It recognised that intermediate organisations are the 'vital linchpin' - echoing the role played by *servizi reali*, albeit based on the region as a whole rather than particular industry sectors as in the Italian case. Certainly, the proposals have merit in that they are not necessarily restricted to manufacturing industry which has been the characteristic focus of the most regional policy to date. In an era of a declining ratio of manufacturing to

service sector jobs, the regional location of the latter is extremely important. However, the Federal Government support required for the implementation of these proposals has not been forthcoming. A proposal for a \$8 million pilot programme to create 3000 jobs was rejected in 1988 by the Federal Government's Expenditure Review Committee. (National Advisory Group on Local Employment Initiatives, 1987; *Australian Society*, September 1988:6)

Is there a case for moving further down this track in developing a local enterprise approach to Australian regional policy? The overseas experience indicates both pros and cons.

First, the local enterprise approach is associated with beggar-thy-neighbour tendencies. In the extreme case of a zero-sum game, one region's successful capture of capital investment is another region's loss. Of course, the proponents of the local enterprise approach contend that it is not a zero-sum game: indeed, that is precisely its professed advantage vis-a-vis more conventional regional policies. According to this view, the supply-side policy focus is the generation of economic growth rather than its re-allocation. Be that as it may, beggar-thy-neighbour tendencies remain a major problem wherever there is regional competition for the investable surplus. Existing inter-State rivalries already generate this problem within the Australian federal system: the local enterprise approach has the potential to further accentuate the tendency.

The local enterprise approach is also typically associated with a changing balance in the power of capital and labour, as the local state increasingly tailors its policies to meet the requirements of inter-regionally and internationally mobile capital. In the case of the USA, as Paul Goodman has shown, the result has been a relentless tendency for reduction in local business taxation and regulation and increasingly severe restrictions on the power of labour (e.g. 'right to work' legislation). (Goodman, 1979) In Australia the effect of individual States' pricing their electricity in order to attract aluminium smelter companies is another clear example of how capital has benefited from inter-State rivalry, in this case at the expense of consumers. (Stilwell, 1980:160) Within a capitalist economy state-state competition for private sector investment does not even generate the limited benefits arising to consumers from capital-capital competition.

However, there is a more positive side to the local enterprise approach. It is less subject to the statist tendencies associated with more conventional

regional economic policy (or any policy which relies on the central institutions of capitalist state for its formulation and implementation). For example, in the Italian case, the Bologna model stands in striking contrast to the character of regional economic policy in the South, with its well-known tendencies to bureaucratic expansion and political patronage. In the British case, while the local enterprise initiatives have been marketed by stressing their consistency with 'new-right' ideology, they also have appeal as a counter to the revealed inadequacies and statist character of more conventional regional policies. Indeed, the appeal to both left and right is closely connected with the role of the localist approach in the devolution and decentralisation of economic and political power. This is most evident in the establishment of Local Enterprise Boards in the larger urban local governments controlled by the Labour Party in Britain. Some of these local Enterprise Boards (as in the cases of West Midlands and West Yorkshire) have been quite pragmatic and commercially oriented in seeking to generate local employment. Others, most notably the Greater London Council (before its abolition by Mrs. Thatcher's government) have sought to develop a more thorough political-economic program, emphasising principles such as 'socially useful production', schemes for employment of disadvantaged minority groups and for 'popular planning'. (Boddy & Fudge, 1984)

These experiments show that the ascendancy of localism over more broadly-based regional policy is not necessarily linked with the ascendancy of new-right ideology. This has been its dominant feature in the British case, but localism has also been associated with progressive counter-offensives to Thatcherism. In the Italian case, the localist approach has involved distinctive forms of capitalist economic development, but the role which the P.C.I. has played in fostering collectives in the Bologna region has opened up the potential for new forms of ownership and control. These examples may be taken as indications of the political elasticity of the localist approach. The appropriate conclusion is that, whereas broad-based regional economic policy has tended to be associated with an earlier era of 'Lib-Lab' consensus politics (and with liberal Keynesian economic policy), the localist approach offers more striking political interpretations and alternatives. The overall effect is a more explicit politicisation of 'the regional question'.

References

- Ambrose, P. (1986), *Whatever Happened to Planning*, London, Methuen. Bagnasco, A. (1981), 'Labour Market, Class Structure and Regional Formations in Italy', *International Journal of Urban and Regional Research*, Vol.5.
- Bianchi, P. (1987), 'Intermediaries and Structural Change in Small Firms' Areas: The Italian Experience', Paper presented at the Conference on New Technologies and New Intermediaries, Stanford.
- Bianchi, P. and D. Mazzonis (1986), 'Technology Assessment in Italy', paper presented at the European Technology Assessment Conference, Amsterdam.
- Boddy, M. and C.Fudge (eds.) (1984), *Local Socialism*, London, Macmillan.
- Brusco, S. (1982), 'The Emilian Model: Productive Decentralisation and Social Integration.', *Cambridge Journal of Economics*, No.3.
- Bureau of Industry Economics (1985), *The Regional Impact of Structural Change - an Assessment of Regional Policies in Australia*, Canberra, A.G.P.S.
- Fothergill, S. and G. Gudgin (1982), *Unequal Growth, Urban and Regional Employment Change in the UK*, London, Heineman.
- Goodman, P. (1979), *The Last Entrepreneurs*, New York, Simon & Schuster.
- Graziani, A. (1983), 'The Subsidised South', *Mezzogiorno d'Europa*, No.3.
- Gribber, R. (1987) 'Regional Development: A Change of Direction?' *The Daily Telegraph*, 9.11.87.
- Gurr, T.R. and D.S. King (1987), *The State and the City*, London, Macmillan.
- Hall, P. (ed.) (1981), *The Inner City in Context*, final report of the SSRC Inner Cities Working Party, London, Heinemann.
- Hallett, G. (1981), *Second Thoughts On Regional Policy*, London, Centre for Policy Studies.
- Holland, S. (1976), *The Regional Problem*, London, Macmillan.
- Jacobs, M. (1988), 'Mrs Thatcher and the Inner City' *Australian Society*, (March).
- Keating, M. (1981) 'Enterprise Zones, from Rhetoric of Reality', *Municipal Journal*, 21.8.81.
- King, R. (1985), *The Industrial Geography of Italy*, Beckenham, Croom Helm.
- King, R. (1987), *Italy*, London, Harper & Row.
- Lloyd, C. and P.N.Troy (1981), *Innovation and Reaction: The Life and Death of the Federal Department of Urban and Regional Development*, Sydney, Allen & Unwin.
- McLoughlin, P. (1987), *Trends and Rationale for Federal Regional Policy In Australia* (mimeo)
- Martin, R. (1987), 'The New Economics and Politics of Regional restructuring: The British Experience' Paper presented at International Conference on Regional Policy at the Cross Roads, University of Leuven, Belgium.

Mason, C. and R.T. Harrison (1987) *The Regional Impact of the Business Expansion Scheme*, paper presented at the Tenth National Small Firms Policy and Research Conference, Cranfield Institute of Technology

Mattera, P. (1985), *Off the Books: The Rise of the Underground Economy*. London, Pluto Press.

Morrison, F. H. (1987) *The Regeneration of Local Economies*, Oxford, Clarendon Press.

Murray, F. (1987), 'Flexible Specialisation in 'the Third Italy' *Capital and Class*, No. 33, (Winter).

National Advisory Group on Local Employment Initiatives, (1987) *Report*, A.G.P.S., Canberra, (July).

Ohlsson, L. (1984), *International and Regional Specialisation of Australian Manufacturing: Historical Developments and Implications for National and Regional Adjustment Policies*, Bureau of Industry Economics Contributed Paper 1, Canberra, A.G.P.S.

Rees, G. and J. Lambert (1985), *Cities in Crisis: The Political Economy of Urban Development in Post-War Britain*, London, Edward Arnold.

Sabel, C. (1982), *Work and Politics*, Cambridge, Cambridge University Press.

Stilwell, F.J.B. (1980), *Economic Crisis, Cities and Regions*, Sydney, Pergamon.

Storey, D.J. and S. Johnson (1987), *Job Generation and Labour market Change*, London, Macmillan.

Lloyd, C. and P.N. Troy (1981), *Innovation and Reaction: The Life and Death of the Federal Department of Urban and Regional Development* Sydney, Allen and Unwin.

Young, H. and A. Sloman (1986), *The Thatcher Phenomenon*, London, BBC.



Copyright of Full Text rests with the original copyright owner and, except as permitted under the Copyright Act 1968, copying this copyright material is prohibited without the permission of the owner or its exclusive licensee or agent or by way of a license from Copyright Agency Limited. For information about such licences contact Copyright Agency Limited on (02) 93947600 (ph) or (02) 93947601 (fax)