

Industrial Policies for Southern Europe

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**National and Regional Economic Policies for the Development of Local
Economic Systems in the EC Countries**

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During the post war boom, regional policy in Europe was primarily concerned to encourage the spatial redistribution of jobs. It did this through encouraging a relocation of manufacturing and (in some countries) office based industries through grants and incentives. Most countries also used large scale infrastructure projects to support such programmes of productive relocation. It is this set of policies which is now in question.

Partly this is because - as a policy - it is not working. Regional inequality in the EEC, having narrowed in the 1960s, widened in the 1970s and 1980s. In recent years there has been less footloose industry to relocate. That which there is has used the power of relocation to set one region against another, engaging them in a competitive bidding up of incentives in order to secure the investment. It is a pattern common in the United States, and leads less to a fresh inducement to relocate, than to increasing costs to the Exchequer. By the 1970s large scale manufacturing was in any case retreating from the cities and the historical 'rustbelts'. Regional incentives merely increased the public cost of them doing so.

This change has been one result of Europeanisation. At the very moment that the creation of the internal market was increasing the vulnerability of weaker regions by the removal of protection, it was also creating a new system of inter-state competition which was weakening the nation state. The need for regional policy was intensified, but the national instruments for regional redistribution became blunter. This is the first major structural change which any new approach to regional policy must take into account.

A second is a change in the factors influencing industrial location itself. During the first industrial revolution, the leading manufacturing sectors were tied to sources of raw materials, energy, and access to labour reservoirs and to the ports of international trade. With the rise of mass production the emphasis shifted to mass markets. It was the cities which industrialised and within which a new semi skilled labour force was formed. From the 1960s improvements in transport, the widening of markets, and the strength of urban labour movements all weakened the ties of industry to the

cities. Over the past 25 years there has been a shift of manufacturing to smaller towns and the countryside.- the so-called ruralisation of industry. It is for this reason that traditional policies for regional dispersal came to run with the industrial grain.

At the same time, however, large scale manufacturing plants were losing their primary role as agents of economic development. The leading edge passed to the software industries, those concerned with design, conception, and the shaping of markets and minds. It was R & D Laboratories, design engineers, advertisers, management consultants, finance houses and the so-called cultural industries that became the new growth activities, the post industrial head as against the industrial hand. The significance of these changes for industrial location is that the new knowledge industries, too, have tended to be concentrated in core regions, and these regions have in turn come to depend on a modern infrastructure (advanced telecommunications, international airports), and a large pool of technical software firms in the core regions, and it is the geographical preferences of technical labour which have come to have a decisive effect on economic location.

For regional policy, the problem of dispersing these industries is quite different from that of dispersing manufacturing or routine office functions. A concentrated district of designers cannot be removed from Milan to the Mezzogiorno as if it were a steel plant. The designers depend on a metropolitan urban culture. There are many of them, with links across industries and tied closely to the head offices of clients. Any policy of dispersal must therefore take on board the need to establish alternative poles of attraction, with their necessary economic and cultural infrastructure, and the wide range of specialisms. In the knowledge industries there are both economies of agglomeration, and the economies of urban 'scope'. It is for this reason that a policy of dispersal must be a policy of 'counter cores'.

A third change is that the contemporary regional problem is an intra regional as well as an inter-regional one. Depressed regions have their areas of growth, boom regions their zones of decay,

particularly in the large urban areas. It was the cities which became the depressed regions of the 1980s, recognised as such in the form of the 'inner city problem'. Some thought that these urban problems could be treated within the urban context itself. They saw the economic strength of boom regions 'trickling down' to those who were residentially confined. But the 1980s confirmed that, far from trickling down, part of the boom was dependent on a low paid secondary labour market, and that jobs created were too often not those which the urban unemployed required. Labour shortage was found side by side with large scale unemployment, and no short term training or labour mobility programmes could bridge the divide.

Unemployment is not of course confined to the cities. It has always been a rural as much as an urban problem, particularly in those regions of the periphery where agriculture itself is in the process of being transformed. What is new in the 1980s is the persistence of high levels of unemployment in the Community as a whole, in spite of the sustained period of growth. Unemployment is structural as well as cyclical, and this further changes the context for regional policy. For it is clearly no longer enough merely to redistribute industry geographically, since this may amount to no more than the redistribution of unemployment. Regional policy needs to take on board the creation of jobs as well as their redistribution - in other words it needs to address the question of autonomous regional development.

To these considerations we add a final one, which is the growing concern for the qualitative as much as the quantitative character of growth. The needs of regional development have come increasingly to be defined in terms of the quality of jobs and working life, of a safe environment and an infrastructure which meets social needs, and of an economic order which does not widen social divisions and put its society under siege. What is now called 'the quality of life' is therefore as significant a regional policy issue in the weaker regions as it is in the core, and widens the scope of regional policy far beyond its original concentration on the financing of jobs.

Some of these changed circumstances require direct Community level action. This is most evident in the field of locational incentives.

The Commission needs to find ways of curbing the destructive competition between regions for footloose investment. The incentive system is one which is increasingly benefiting firms rather than regions. What is required is a standardisation of the incentives and an end to the auction of locations.

The Commission also has a central part to play in shaping a Europe of multiple cores, rather than a concentrated European triangle. The Community level transport and telecommunications policies, and the regionalisation of Community expenditures, would all contribute to this end.

But Brussels is right I think to see the main locus of regional policy initiatives at the national and regional levels. Over the past two years the Commission has opened the way for new initiatives by redefining its role away from being a distributor of funds to being a partner with national and regional authorities in providing Community assistance for development planning and finance. It has moved from projects to programmes, and this has further stimulated the production of development plans. It has pushed the responsibility for development down the line, and as a result has opened the way for a more pluralist approach to regional policy. But the question remains as to what those policies should be. What are the approaches which are relevant to the conditions - and questions - of the 1990s? This is the subject matter of the present paper.

One critical area is the regionalisation of national policies. A number of countries - Britain is notable among them - have no adequate way of inserting regional priorities into the work of other Government departments and public corporations. There is no mechanism for regionalising public expenditure, let alone co-ordinating the different parts of government around specific regional goals. The development of 'counter cores' would clearly need this kind of inter-departmental co-ordination, not least because it is clear that the new core regions have been decisively moulded by public expenditure decisions taken by Departments in an unco-ordinated way. France has been more effective in this respect, reflecting their stronger tradition of central planning. But a similar effect is evident in those countries which have a

decentralised state structure, with strong regional governments. The more balanced and decentralised regional economies in West Germany, for example, can be partly explained by the importance of the Lander within the Federal structure.

The principal emphasis of this paper, however, is on the regional rather than the national level, and in particular on what local regional authorities have done and can do to stimulate development within their boundaries. In the changed circumstances of the '90s it is at this level that regional policy should start. Local and regional governments are by definition closer to the specificities of place than are national or Community civil servants. They should therefore have prime responsibility for the preparation of regional strategies and plans. They are also in a better position to deliver many of the services required. In the course of planning and delivery there will be demands made on national governments, and the Commission itself for support. These upper levels also need their own plans and policies as we have suggested above. But with the decline of the nationally based incentive system of regional redistribution, and the shift in emphasis of regional policy towards autonomous development, it is the regional and local levels which are set to become the front line institutions.

What is striking about economic policy at this level is how wide ranging and significant it has been over the past fifteen years. Partly because of de-industrialisation and the rise of unemployment, there has been a growth of local economic initiatives throughout the community. They have been particularly marked in West Germany, Italy, Belgium and the UK, and they are being given increased importance in Spain and Greece. From the broad range of this experience, we can see a number of developments which are important innovations in industrial strategy, technology policy and in public administration, and have changed the way these issues are seen at the national as well as the local regional level. Indeed in some areas it is clear that national policy is best pursued through local and regional agencies. In this sense the local is the national. Regional policy can be seen as playing an important part in realising national priorities, and is no longer confined to reducing regional inequality alone.

I want to briefly discuss ten areas of innovation by regional and municipal government:

i) Regional development banking.

Many regions have established agencies and enterprise boards, whose functions parallel those of development banks in the third world. They hold equity, provide venture capital and loan finance, engage in company turnarounds, sectoral intervention and technological upgrading. They provide specialist advice, and management services on an agency basis. They are engaged, hands-on institutions, whose aims are the promotion of long term development, even though they operate within strict financial disciplines. They are an administrative innovation which promise to be as significant in the last years of the twentieth century as public corporations were from the 1930s onwards, for they have the potential to play the role of 'social entrepreneurs' in any local economy. What is required is an expansion of this sector, allowing specialisation and a measure of 'co-operative competition' between them.

ii) Industrial districts, consortia and centres for real services

A number of Italian regions have pioneered what is now internationally known as the Italian model of local development, or 'diffused industrialisation'. Municipal and regional governments have supported networks of small and medium sized firms, by stimulating and part funding the provision of collective services which would normally only be available to larger firms. The encouragement of consortia between firms, the financing of centres of common services, and sectoral infrastructure (like training facilities and industrial parks) have all been of central importance in the success of the industrial districts of the 'Third Italy'. The industrial strategy pursued of design intensive, high quality products, produced by a flexible production structure which can respond rapidly to changes in demand, stands in strong contrast

to the large scale mass production industries that were at the centre of earlier regional policy. In spite of - and in many ways because of - an apparent disadvantage in firm size, the Italian industrial districts have had a remarkable success in export markets, as have parallel regional economies in Baden Wuerttemberg and Jutland. Each of these regions has had particular social and economic histories - the Third Italy for example coincides with the former sharecropping part of Italy - which some have argued limits their replicability elsewhere. But the production principles that they embody, and the role played by local and regional governments, have much wider relevance.

iii) Technology initiatives.

There have been three main approaches to local technology policy. The first is technology led and involves the setting up of product banks, prototype workshops, searching patent registers for potential products, and encouraging commercial product development from existing public sector technological capacity (research institutes, public corporations). The second is enterprise led, and focuses on securing appropriate technological support to meet the particular needs of firms. The technology transfer centres in Baden Wuerttemberg, the sectoral resources centres in Emilia, and the SPRI technology upgrading programme in the Basque country are all interesting variants of this approach. The third is to start from more general social needs - in the fields of energy for example, or urban transport, or health, or human centred work organisation - and develop technology and new products to meet them. This was one of the approaches adopted by the Greater London Enterprise Board's technology networks, and by Sheffield City Council. It has resulted in a number of major innovations, most notably the development of the world's first human centred robot integrated manufacturing system, a £4.5 million project between the former Greater London Enterprise Board, Rolls Royce, BICC and Dutch and German partners under the Esprit

programme. It also avoids an overconcentration on technological hardware, in favour of integrated systems of provision of which hardware is but one part. What is important about all three approaches is that regional agencies have helped to link public research capacity and public and private production. They have helped to provide the technological support to the SME sector and they have highlighted the alternative paths that technological development can take. For all these reasons they have had an importance which extends well beyond their own frontier.

iv) The cultural industries and the environment.

Another field in which local and regional government have been pioneers is in the promotion of the cultural industries as a key part of an economic development strategy. Not only have these industries shown strong growth - in music, TV, video, film, theatre, radio, design, publishing - but they contribute to the creation of a thriving urban culture which is so significant a factor for the 'knowledge industries', and for qualitative growth as a whole. City centre planning and environmental policies have had a similar importance, and have in turn encouraged the growth of new products and jobs. Glasgow, Bradford and Rome are all examples of cities where strong cultural strategies have encouraged economic expansion, and have helped shift urban economic policy thinking away from a sole concern with the city as a productive apparatus, towards a view that takes as its starting point the quality of urban life.

v) Sector strategies and democratic planning.

Many regional authorities have followed a sector strategy approach to their industrial policy. This has been important not only for its insistence on a long term perspective, but also because it provides a common focus for all those involved in the local economy - enterprises, trade unions, user groups, and the many parts of the public sector. One result has been

to show how varied are the ways in which the public sector can support the growth of a particular industry: as public purchaser, pension fund investor, training agent, land use planner, environmental health officer, infrastructural developer and transport operator. This is a far cry from policies centred round financial incentives and industrial 'promotion'. The public sector has these powers by virtue of its day to day operations. Sector strategies have provided ways of linking them together around detailed aims.

A further quality has been to involve interested parties closely in the formulation of the strategy. Some authorities have set up 'popular planning units'. There have been public hearings and public enquiries, sectoral adult education classes inside and outside the workplace, appointment of people from the industry as temporary planners, conferences, radio programmes, economic newspapers, even music festivals featuring strategic issues. These processes have not only enriched the plans. They have provided a way of identifying paths of development which have a measure of broad based support, and of securing the commitment of parties on whom any successful planning process depends. In this sense, local sector strategies have been the focus for the emergence of an economic politics and administration of a new type.

vi) Property and planning.

Most local and regional authorities have used planning powers to encourage economic development, and many have built subsidised factory space as a form of incentive. By and large these initiatives have been in support of what I will call 'fragmented market development'. There have also been attempts to actively develop an integrated property infrastructure around strategic plans for particular industries or broader social projects. The Italian industrial parks are an example of such 'social market development'. The municipal authorities have bought land at agricultural prices and passed the benefits on to industrialists, favouring consortia, particular sectors, and those agreeing to accept surface rights rather than land

ownership itself, so that any future sale price would be based on the inflation adjusted original price. This system has used land ownership in support of planning powers and priorities. It has secured public control over 'founder's rent', and used this rent to finance development and secure the industrial mix required by the district. There have been other examples of this kind in Scotland, Sheffield and London - each confirming the value of the local authority acting as an integrated developer.

vii) Work, workers and the labour market.

One of the consequences of the early 1980s recession was to sharpen divisions within the labour market, between a core with market power, and a secondary labour force, weakly organised, lowly paid, and with little job security. Many municipal and regional authorities have sought to counteract this growing division, by expanding training, by using their power as employers and purchasers to establish good standards within their local labour markets, and by providing support to trade unions and labour resource centres. They have also taken a range of measures to try and reduce discrimination against disadvantaged groups who comprise the majority of those in the secondary labour market - women, ethnic minorities, migrants, people with disabilities, lesbian and gay people and gypsies. Municipalities have provided childcare facilities for working parents, and organised more flexible working times for those with domestic responsibilities.

Local authorities have also taken the lead in implementing policies which are being recognised as key national issues in the 1990s: working time, health and safety at work, human centred technology and industrial democracy. These are all aspects of the quality of working life, and have been promoted through such devices as enterprise planning, co-operatives, enterprise health contracts, epidemiological projects and hazard centres.

viii) Multinationals and coalitions of countervailing power.

Among the most damaging events in a local economy are closures by multinational corporations. The employment efforts of a public authority can be cancelled overnight by such a closure, and the closed plants are - on European evidence - particularly hard to turn round as stand alone operations. To minimise this damage, some authorities have demanded national legislation to require community compensation from the parent firm of a closed branch plant. This is an issue which would best be dealt with at the EC level. Others have established early warning units to allow trade union and political campaigning against closure to begin while there is still time. There have also been some notable developments of European link-ups between branch plant trade unions in particular multinationals. The Standing Conference of Kodak Workers is one striking example, and similar initiatives have taken place in Ford, Phillips and Unilever. In each case local authorities provided research and organisational support to what became known as coalitions of countervailing power, but although they achieved a measure of support from the European Parliament, they were weakened by the lack of backing from the nation states.

ix) Public services and parastatals.

A second group of large employers who have a major impact on local economies are national public sector services and parastatals. This is a particularly serious issue in centralised states, for there are inadequate mechanisms for linking the operations of these national bodies to local and regional requirements. Airports, railways, the post office, coal and steel, public research laboratories, power generating authorities, together with other public services and administration may make up a quarter to a third of local and regional employment, but are locally unaccountable.

Again local authorities have worked with trade union and user groups to produce alternative strategies for these industries - transport, health, energy, telecommunications and the postal services. They have developed detailed proposals about how services could be improved locally and integrated into local plans. However, it has often been harder to influence the public bodies than private ones, and it raises the broader question of how to make public authorities in Europe more accountable to the localities and regions within which they work. The success of local sector strategies suggests that this accountability should start at the planning stage, in line with the new forms of decentralised administration being introduced in both the public and the private spheres. The co-ordination of public sector planning and investment is of ever growing importance for regional policy at a time when the direct influence on private sector investment is becoming increasingly expensive and blunt.

x) Consumers and community groups.

There has been a growing recognition of the importance of the new social movements for the direction of economic development. Consumer groups, the women's movement and environmentalists have all had substantial influence on the development of particular sectors. They have acted as watch-dogs, inspectorates, early warning systems, and advocates of alternative long term strategies. They have often provided an integrated view of a problem, against the sectional views of firms and government departments. Their pressure has been an important source of innovation and ideas, and they have also developed as a strong political force for changes at a national level.

Local and regional authorities have been among the first parts of government to recognise the importance of these movements for economic development. They have provided grants to strengthen them - women's employment groups, black groups, tenants associations, homeworkers action groups, consumer

groups in food, transport, health care, broadcasting. They have appointed their representatives on employment and training committees, and have held open forums. They have helped magnify a voice.

What runs through these initiatives is the critical role of local and regional authorities as co-ordinators. In most parts of Europe, co-ordination is primarily vertical. On the industrial estates there are branch plant factories. In the high street are the branches of the retail chains and the banking and insurance companies. The local railway station, the local post office or telephone exchange, are all integrated vertically with the head offices above them. Co-ordination between them is weak. Yet much depends on effective 'horizontal co-ordination'. Labour markets, urban property and the pattern of a city and its transport networks, are all predominantly local and need to be planned as such. So are many of the links between enterprises, and between different parts of the state. Local and regional authorities have been trying to improve this horizontal co-ordination in the interests of these local strategic goals. Some of them have also recognised the importance of a thriving local culture. Many of the most successful regions in Europe have depended for their success on such a broad view of the process of economic development. As the Commission encourages national and regional plans as a means of counteracting continuing regional problems, this is perhaps the prime lesson it should draw from the rich and varied experiences of recent regional economic intervention.