

STRATEGIC DECISION-MAKING IN DEVELOPMENT
THEORY AND PRACTICE:
A LEARNING APPROACH TO DEMOCRATIC
DEVELOPMENT

By

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ABSTRACT

This thesis comprises two Parts. The first develops a theoretical framework for analysing development policy and practice. A central argument is that a reason for widespread discontent with the so-called ‘Washington consensus’ is the exclusion of the majority of people from the governance of their development. An implication is that ‘development’ will continue to fail people until decision-making structures are altered to reflect the views of those that are seeking to ‘develop’. This perspective suggests the possibility of a ‘dual approach’ to policy that seeks to alter decision-making structures while working in the shadow of the consensus; a learning process of democratic engagement in development, both within and across localities. When extended to consider the contested theme of ‘globalisation’, our framework provides an analytical meeting ground for seemingly polar views, making a conceptual distinction between *elite* and *democratic* globalisation. The second Part of the thesis then advances and applies this framework through the exploration of specific issues and cases: the importance of communication for the governance of development; a specific case study of multinational engagement in local development processes; the role of ‘clusters’ in employment generation processes; and an analysis of the recent Argentinian economic crisis.

DEDICATION

To Miriam, for all of your love, encouragement and support, which means so much, and without which I wouldn't have been able to do this work.

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DECLARATION OF COLLABORATIVE WORK

I hereby declare that the material contained within this thesis draws in part upon the following pieces of collaborative work, and that my proportional contribution to these is given in parenthesis:

SUGDEN, Roger and WILSON, James R. (2002). 'Development in the Shadow of the Consensus: A Strategic Decision-Making Approach', *Contributions to Political Economy*, Vol. 21, pp. 111-134. (50%)

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INTRODUCTION

STRATEGIC DECISION-MAKING IN DEVELOPMENT THEORY AND PRACTICE: A LEARNING APPROACH TO DEMOCRATIC DEVELOPMENT

INTRODUCTION

I. CONTEXT AND MOTIVATION

The context and motivation for this thesis are provided by an appreciation of current and recent approaches to economic development theory and practice. The issue of ‘economic development’ is of central concern to people and communities across the world; it can be argued that the ability to ‘develop’ or ‘improve’ the economic and associated social well-being of oneself, ones family and ones locality are of fundamental importance, whether one be in a so-called ‘less developed’ or ‘developed’ country. However, we are at a stage in history where a great many people in the world are evidently strongly disillusioned with ‘development’ as it is currently framed.

This disillusionment is reflected most starkly in the recent spate of protests across the world that are directed at the international institutions charged with guiding development thinking and policy, primarily the International Monetary Fund (IMF) and the World Bank. Moreover, Stiglitz (2002, p. 3) provides a timely reminder that such protests are not new: “for decades people in the developing world have rioted ... but their protests were largely unheard in the West. What is new is the wave of protests in the developed countries.” The root concern appears to be severe discontent among many at the development policies associated with these (and other) institutions. In particular, there is discontent with what is perceived to be a fairly relentless pursuit of global free markets, clearly benefiting some, but simultaneously associated with apparent rising economic inequality and an eroding of cultural, social and other human values. This is often expressed in more popular terms as discontent with ‘globalisation’.

Within the vast academic literature concerned with economic development, the benefits and shortcomings of the policies towards which protests are focussed have been heavily debated. However, over the last twenty years the currently favoured set of policies, known as the ‘Washington consensus’, has become and remained dominant (Williamson, 1990, 1993; Mahdi, 2000). Their influence is enormous. It is expressed directly, through the attachment of conditions to the development and debt assistance provided by the international institutions, and indirectly, through the intellectual and ideological pressure to conform that accompanies a dominant hegemony. Consequently, the scope for exploring alternative paths for economic development has been stifled, both in academic and policy circles. Indeed, at a time when Washington consensus policies have clearly failed to effectively meet the challenge of addressing understandably high development expectations, their own embeddedness in the fabric of the global economy has sidelined the possibility of exploring theoretical and practical alternatives. Under such circumstances disillusionment with ‘development’ is in many ways inevitable.

The aim of this thesis is to begin to explore potential alternatives for economic development. It derives from a personal motivation to contribute to an improved understanding of different development options that was sparked by an appreciation of the work of Cowling and Sugden (1987, 1994, 1998), and the fundamentally different implications that derive from their strategic decision-making approach to the theory of the firm. This motivation was crystallised while studying in South Africa during 1998 and 1999, and experiencing first-hand the frustratingly unimaginative and stifled policy debate regarding routes forward for a country characterised by severe economic and social hardship among large segments of the population.

Specifically, this thesis seeks to respond to the current ‘crisis in development’ by first questioning what is meant by ‘development’. From this starting point, our main contribution is to develop a theoretical framework for analysing development that expands and builds on existing knowledge, in particular integrating the strategic decision-making approach to the theory of the firm. We suggest a way forward that is rooted in a different approach to what development means and how it is achieved; an approach that centres on engagement, and on *learning* to be *democratic* within the economic and social processes that underlie development. Central is the argument that ‘development’ *by definition* should be seen in terms of the aims of those seeking it; development will continue to fail people until decision-making structures are altered to reflect the views of those it aims to assist. When extended to explicitly address economic development under ‘globalisation’, the analysis implies a theoretical distinction between ‘elite’ and ‘democratic’ forms, and provides a conceptual framework for bringing together diverse and seemingly polar views on the impacts of globalisation.

Fundamental within the thesis is recognition of the importance of truly *multidisciplinary* analysis, and concern with *processes* rather than solely with outcomes. This is reflected in Part Two of the thesis, which builds out of the theoretical framework to begin a process of exploration of particular issues and cases: the importance of communication for the governance of development; a specific case study of multinational engagement in local development processes; the role of ‘clusters’ in ensuring processes of employment generation that enhance the governance of development; and an analysis of the recent Argentinean economic crisis. Each of these contributes by taking the theoretical framework significantly forward in a specific context. Each, however, represents an

application where there is significant scope for further development, for learning over time, and in particular for integrating analysis from different disciplines. This is reflective of the nature of development as a topic of analysis. Economics (or any other discipline) alone cannot meet the challenge facing development practitioners, and we start to explore issues and cases in ways that begin to span disciplines, and that raise new questions for further analysis.

III. ORGANISATION AND CHAPTER OVERVIEW

The thesis is split into two Parts. Part One is entitled ‘Development and Strategic Decision-Making: A Conceptual Framework’, and constitutes four Chapters which develop the theoretical argument of the thesis, rooting this in appropriate literatures.

Chapter One provides an introduction to current disillusionment with ‘development’ under the Washington consensus, discussing potential explanations for the ‘crisis’, and reviewing relevant literature. We outline a thesis based on exclusion from the governance of development; a lack of engagement in current development processes. This leads to a re-evaluation of the meaning of development, and a suggested alternative conceptual framework within which development can be analysed. Specifically, it is argued that development should be framed in terms of the aims and objectives of those seeking to develop. An implication is that fundamental concern should be afforded to how decisions are made in identifying aims and objectives, and then in moving towards them.

Chapter Two builds on this framework, drawing on the literature surrounding strategic decision-making with reference to the corporation to inform an analysis of strategic

decision-making in development theory and practice over the last fifty years. It first focuses on early development theory, and then on the Washington consensus phase. Our analysis suggests the need to more carefully question to what extent strategies constitute ‘development’, and more specifically ‘for whom’ they constitute development. It thus supports and deepens the argument introduced in Chapter One that disillusionment with development is rooted in the exclusion of many from its governance; there exists ‘strategic failure’ in development.

Chapter Three presents a route forward in the form of a ‘dual approach’, working in the shadow of the Washington consensus, but seeking to gradually address the concerns identified in the previous two Chapters. It outlines the rationale for and key elements of such an approach, highlighting the importance of both local and national policy. The argument in terms of local policy is illustrated through two cases, from South Africa and Nicaragua, where attempts have been made to involve communities in decision-making regarding development. In terms of national policy, we focus specifically on the opportunities presented by privatisation for altering decision-making structures and developing a culture of engagement, using the case of the Mexican electricity sector to illustrate.

Chapter Four explicitly focuses our theoretical analysis on an understanding of the much contested theme of ‘globalisation’. It offers a conceptualisation of globalisation that allows us to make sense of the current tensions around this issue by distinguishing between what are labelled ‘elite’ and ‘democratic’ globalisation. Simultaneously, we develop further what is meant by a ‘learning approach’ and by the notion of ‘locality’,

exploring a layered approach to multi-locational networking as potentially providing a route to democratic rather than elite globalisation.

Part Two of the thesis is entitled ‘Towards a Learning Approach to Democratic Development: Further Issues, Cases and Applications’. It constitutes four Chapters, each of which explores in detail a particular application of the theoretical analysis contained in Part One.

Chapter Five highlights the especial significance of communication to economic development, and raises some important issues that demand consideration if the challenges posed in Part One of the thesis are to be met. In particular, we examine current problems with communication relating to artistic processes and the media. We then highlight the potential, but also the dangers, that new information technologies pose to development through their impact on communication.

Chapter Six explores a practical application of the type of learning approach to democratic engagement that our theoretical analysis suggests is important. Its focus is on the activities of *L’institute*, a research and learning venture between the Universities of Birmingham, Ferrara and Wisconsin-Milwaukee. Specifically, we analyse the aims and process of a Workshop organised in Wisconsin in 2001, and illustrate how the learning that this experience entailed has led to an improved understanding of the possibilities and requirements for democratic engagement by academics in local economic development processes in a multinational context.

Chapter Seven takes up in detail one of the issues that was uncovered as potentially important to the development of local economies during the case analysis of Chapter Six. Specifically, we explore the issue of ‘clusters’, focusing on their potential to offer an alternative model of employment generation as compared to the neo-liberal approach associated with the Washington consensus. We highlight the dangers inherent in considering clusters as a panacea for the economic development problems of localities, arguing that their qualitative dimensions, in particular with regards governance processes, will determine their ultimate development impacts. Given insufficient attention in the current literature to such issues, we offer a methodological framework for analysing clusters from a governance perspective.

Chapter Eight applies the analysis of the thesis to a specific country experience. It uses our theoretical underpinnings to support an alternative perspective on the recent crisis in Argentina. Through an analysis of the history of Argentinean economic development, with a focus on the Washington consensus phase, we link present problems in Argentina to the persistent failure to generate an industrial structure around which development could be built. In particular, this highlights the importance of context in implementing development policy, and the failure of Washington consensus policies in Argentina to take sufficient account of this. We discuss potential ways forward for localities within Argentina based on the approach developed in previous Chapters, and specifically in terms of new attitudes to co-operation as a catalyst for building a robust industrial structure.

Finally, the concluding Chapter draws together both Parts of the thesis, outlining the key points and conclusions that have been derived from the analysis. We discuss potential extensions of this approach to development, highlighting further research that is currently ongoing. We also point to some unanswered issues and questions where future research might be desirable.

PART ONE

DEVELOPMENT AND STRATEGIC DECISION-MAKING: A CONCEPTUAL FRAMEWORK

CHAPTER ONE

DISILLUSIONMENT WITH ‘DEVELOPMENT’: SOME POSSIBLE REASONS AND AN ALTERNATIVE APPROACH TO THE MEANING OF DEVELOPMENT

I. INTRODUCTION

The context for this thesis is provided by an appreciation of the position in which the world finds itself twenty years on from the formation of the so-called ‘Washington consensus’. In this first Chapter we introduce the context, describing what might be termed a ‘crisis in development’. To move forward, we argue that there is a need to better understand the meaning of development.

Section II sets out current discontent with ‘development’, and briefly critiques recent attempts to move thinking beyond the Washington consensus. We suggest that it is important first to ask *why* the consensus has failed, and a potential answer, we argue, lies in the exclusion of the majority from governance. Such exclusion is inherent in the approach of the consensus and the system that underlies it, an implication being that there is an essential misunderstanding of what is meant by development and what is desired from development. From this departure point, Section III explores the meaning of development. We examine different labels and approaches to evaluating development, and argue that these fundamentally reflect the agendas of those using them. We suggest that *meaningful* development is integrally related to people’s aims and objectives, and

that this implies a new, community-centred, approach to evaluation and to labelling localities. Section IV then draws conclusions from the Chapter.

II. A DEVELOPMENT CRISIS?

II.i Discontent with the Consensus

Since the early 1980s economic development in the so-called ‘less developed’ countries has been heavily influenced by what is known as the ‘Washington consensus’. This is a term, first used by Williamson (1990), to describe an approach to economic development that emphasises policy measures broadly in line with the following: fiscal discipline, financial liberalisation, trade liberalisation, privatisation, deregulation and a generally limited role for government intervention (Williamson, 1990, 1993; Taylor, 1997). It is so termed because it represented conventional thinking amongst key economists within the US government and the influential Washington-based international institutions - primarily the International Monetary Fund (IMF) and the World Bank - during the 1980s (Williamson, 1993). Williamson’s (1993, p. 1329) view, however, is that “it is the outcome of worldwide intellectual trends to which Latin America contributed (principally through the work of Hernando de Soto) and which have had their most dramatic manifestation in Eastern Europe.” Taylor (1997, p. 147), on the other hand, places its evolution firmly in the Anglo-US axis, describing it as an amalgamation of “long-standing IMF macroeconomic stabilization policies, the World Bank’s adoption of the market deregulation and supply-side economics ideas in vogue in Washington in the Reagan period, and London’s zest for privatising public enterprises which crossed the Atlantic a few years later.”

Regardless of the narrowness or otherwise of its conception, the extent of convergence on this consensus of appropriate policies has been remarkable over the last two decades. For example, Rodrik (1996, p. 9) argues that “faith in the desirability and efficacy of these policies unites the vast majority of professional economists in the developed world who are concerned with issues of development”. Equally remarkable, however, has been the perceived lack of progress achieved by development policy under the Washington consensus. Indeed, criticism is often framed not so much in terms of lack of progress, but of outright harm that policies are claimed to have inflicted. Cavanagh *et al.* (1994, p. xii), for example, are disturbingly reflective of more general popular perceptions:

The pain and suffering generated by the Bretton Woods institutions are immense. They can be measured in the tens of millions of people displaced, impoverished, marginalized and sent to premature death by economic projects that have subordinated human and community values to free markets and growth targets.

Jolly (1998), however, argues that much of this pessimism towards development is misplaced. He suggests that a number of factors have served to overemphasise the view that progress in addressing poverty has been weak, and notes that “in fact, the record of development over the last two or three decades shows widespread human and social progress” (p. 3). Within ‘developed’ countries, these factors include preoccupation in the media with countries in conflict, a focus on examples of extreme poverty in fundraising activities, a focus on failures of development in political and policy debate, increasing emphasis on poverty reduction as a goal of development but with insufficient statistical evidence to make reliable judgements, and a rise in poverty in a number of industrial countries themselves, encouraging the view that “the poor will always be with us” (*Ibid.*, 1998, pp. 4-5). Crucially, though, among factors identified for the understatement of

achievement within ‘less developed’ countries themselves, he cites the “decline in incomes and living standards” that characterise the development experience “for some 100 developing countries”, and the “wide and sometimes still widening gaps between developed and developing countries in many measures of economic and social progress” (*Ibid.* p. 5). While Jolly’s point that we should not let this disguise the progress that has been made is an important one, the situation he describes is indicative of a severe failure to meet the understandably high expectations from ‘development’ that exist in the less developed world.

Furthermore, this failure is seen by those in less developed countries alongside a series of unpopular policies that often appear to be doing little to directly address their situation, and in many cases seem to be working against them. In general terms the perceived drive towards global free trade, especially the way in which it is proceeding under the auspices of the World Trade Organisation (WTO), has caused much consternation.¹ More specifically, the structural adjustment programmes through which consensus policies have been transmitted have been widely and heavily criticised (Cornea *et al.*, 1987; Mosley *et al.*, 1991; Berg, 1995; Riddell, 1997; Dasgupta, 1998; Collier and Gunning, 1999; Biel, 2000; Van der Hoeven and Taylor, 2000). Shortly following their introduction in the early 1980s they were attracting criticism in an influential UNICEF study for their impact on the poor and most vulnerable in society (Cornia *et al.*, 1987), a theme that has continued pretty much ever since. Perhaps most pertinently in terms of influencing perceptions, they have been accused of causing “avoidable hardship” (Collier and

¹ For a reflection of some of the popular criticism see, for example, ‘Let’s have a Bonfire of WTO Hypocrisies’, *The Guardian*, 8th November 1999; ‘Storm over Globalisation’ and ‘The Battle in Seattle’, *The Economist*, 27th November 1999; ‘In Defence of Global Capitalism’, *Financial Times*, 8th December 1999.

Gunning, 1999, p. F634), and Biel (2000, p. 321) suggests that this is part of their very design:

The liberal critique of structural adjustment programmes (SAPs) often assumes that they are widely mistaken, but this is to forget that SAPs are not really there to help countries to develop, but to integrate them into the system of the self-expansion of capital. If they make the people poorer, this could be a sign that they are doing a very good job.

For large numbers of people the everyday realities of continuing (and at times deepening) poverty and rising inequality loom large over any successes arising from Washington consensus policies. This strikes at the credibility of, and hence support for, this development agenda, something that can be seen in the collapse of World Trade Organisation (WTO) talks in Seattle in November 1999, and protests wherever the forces at the core of the consensus meet. Indeed, following Seattle, protesters have targeted the annual meetings of the IMF and World Bank in Prague during November 1999, the World Economic Forum in Davos during December 2000, the European Union summit in Gothenburg during June 2001 and the G8 Summit in Genoa during July 2001, amongst others. While much of the anger expressed at these protests is framed in terms of ‘anti-globalisation’ and stems from groups with widely different agendas, it is intractably linked to dissatisfaction with the approach of the Western-dominated international institutions to problems of ‘development’. Indeed, at the beginning of the 21st century it is strikingly clear that many people in many communities across the world have become disillusioned with ‘development’ in the context in which it currently exists. This is what we might term a ‘crisis in development’.

II.ii The Search for Alternatives

The need for alternative approaches to development has been widely recognized in different strands of the economics literature for some time. The volume edited by Schuurman (1993), for example, provides an overview of attempts to move beyond what is referred to as “the impasse in development theory” (p. 1). This impasse is framed largely with reference to Marxist and neo-Marxist theory, and arrival at a stalemate that allowed the neo-liberal paradigm to gain ascendancy with little challenge throughout the 1980s. Leys (1996) charts what he terms “the rise and fall of development theory”, arguing the case for the formulation of “new development theories” at a lower level of abstraction and generality (p. 44). Taking a different perspective, Cowling and Sugden (1999, p. 362) make the case for “attempts to base economic, social and political development upon the activities of smaller firms”. Their arguments derive particularly from analysis of the nature of transnational firms, and a ‘strategic decision-making’ approach to the theory of the firm (Cowling and Sugden, 1987, 1994, 1998).²

More generally, there is discussion around the desire for less developed countries to move towards a ‘higher road’, in contrast to the path of low and falling wages in low productivity sectors that may result from following static comparative advantage (Kaplinsky, 1993; Adelzadeh, 1996; Nochteff and Abeles, 2000). Singh (1994, p. 1811), for instance, refers to the need for “‘strategic’ rather than ‘close’ integration with the international economy”, and hence a larger role for government than that implied by the “market friendly” approach of the Washington institutions. Lending some support to such arguments are the experiences of the East Asian ‘tiger’ economies. Amsden (1989), Wade (1990) and Singh (1994), for example, have suggested that policies in these

countries went significantly beyond those associated with the Washington consensus, and Rodrik (1995) demonstrates convincingly that strategic interventions played an important role in alleviating co-ordination failures to generate considerable dynamism in Taiwan and South Korea.³ Stiglitz (1999, pp. F587-88) also notes that “China, which is by all accounts the most successful of the low-income countries and which accounted in aggregate for two-thirds of the entire increase in incomes among the low income countries between 1978 and 1995, did not follow many of the key precepts of the Washington consensus.”

The dwindling support for the Washington consensus development agenda has recently been recognised by the institutions at its heart, and the World Bank and IMF have made apparent movements towards changes in emphasis and approach in their policy prescriptions. The former senior vice-president and chief economist of the World Bank, Joseph Stiglitz, has talked forcibly of movement towards a “post-Washington consensus” (Stiglitz, 1998a), and there is recognition that “the analytical agenda is shifting from one based on a simple dichotomy between market and state as good and bad, respectively” (Fine, 1999, p. 1). More specifically, the change is partly reflected in a renewed focus on poverty, and partnership in reducing poverty, at the centre of which are individual country ‘Poverty Reduction Strategy Papers’, which now form the basis for concessional lending to low-income countries by the IMF and World Bank.⁴ It is also partly reflected in a stronger emphasis on knowledge, learning and education (World Bank, 1998a), including a suggestion that that World Bank should evolve towards a ‘knowledge bank’ (Stiglitz, 1998b, Standing, 2000). This is in line with the more general view that, in a setting

² Their strategic decision-making approach to the theory of the firm is explored in detail in Chapter Two.

³ See also Singh (1997) for a detailed analysis of Asian economic performance in the post-1980 period.

where the forces of ‘globalisation’ have accelerated in conjunction with new technologies, education and the generation and diffusion of knowledge have become especially vital components of successful development processes (Florida, 1994; Dunning, 2000; Nichols, 2003).

Sender (1999) maintains, however, that the changes of emphasis within the Washington institutions are slight at best, and that the implications for *real* policy change are limited. While Stiglitz’s arguments come with acknowledgement of an important role for government in correcting market failures, alongside this, Sender (1999, p.104) argues, is “the crucial qualification that not all governments have the capacity to respond effectively to market failures, and that the role of the state should match its “capability”.” Such a contention is supported by Fine’s (1999) suggestion of a link between the economic analysis attached to the post-Washington consensus and the social and political analysis of the increasingly popular notion of ‘social capital’. He proceeds to argue that, “as it is being deployed, social capital allows the World Bank to broaden its agenda whilst retaining continuity with most of its practices and prejudices” (p. 12).

Concerns that the Washington institutions are reluctant to more fundamentally change their approach have been further highlighted by reported tensions within the institutions, and particularly by two controversial resignations from the World Bank (Wade, 2002). In November 1999 Joseph Stiglitz, one of the most influential and outspoken advocates of change within the institutions, resigned his post of chief economist amid rumours that the US Treasury Secretary and former World Bank chief economist, Lawrence Summers, had

⁴ See www.worldbank.org/poverty/strategies/index.htm.

lobbied for him to go.⁵ Indeed, Wade (2002, pp. 221-222) argues that Stiglitz was forced out through pressure placed on James Wolfensohn, President of the World Bank, by Summers: “In essence, Summers made his support for Wolfensohn’s second term conditional on Stiglitz’s non-renewal. Wolfensohn agreed. Stiglitz resigned a month before his term expired so as to go out standing rather than on his back.” On the part of Stiglitz himself, it has been suggested in an interview in *The Observer* newspaper that “what drove him to put his job on the line was the failure of the banks and the US treasury to change course when confronted with the crises, failures and suffering perpetuated” by their Washington consensus policies.⁶

The controversy over Stiglitz’s departure was followed in June 2000 by the resignation of Ravi Kanbur, author of the World Bank’s annual *World Development Report*. This allegedly followed an internal policy row concerning an early draft of the 2001 *Report*, which had emphasised income redistribution and ‘empowerment’ in addition to growth, and stressed greater caution towards free market reforms.⁷ As with Stiglitz’s departure, it did little to forward the impression that the key Washington institutions were willing and/or able to look significantly *beyond* the Washington consensus. Indeed, Wade (2002, p. 221) notes that “their cases constitute minor events in the wider scheme of things. But often in minor events can be seen the texture of power.”

⁵ See ‘Knives Out in Washington for a Free Spirit’, *Financial Times*, November 25th 1999, and ‘Steering a Way Through a Key Growth Debate’, *Financial Times*, 26th June 2000.

⁶ See ‘IMF’s Four Steps to Damnation’, *The Observer*, April 29th 2001. See also Stiglitz (2002).

⁷ See ‘Strains’ in Bank’s Inclusive Model’, *Financial Times*, 16th June 2000, and ‘Steering a Way Through Key Growth Debate’, *Financial Times*, 26th June 2000. See also Wade (2002) for a detailed account of the fight over the draft.

A more comprehensive re-evaluation of the development agenda is clearly necessary if the disillusionment with ‘development’ as it is currently framed is to be stemmed, and if we are to move beyond the present impasse. There is a need to build on recent comment and analysis, and recent developments within the international institutions, to look further beyond the Washington consensus. A logical first step in this process is to fundamentally question *why* the Washington consensus development agenda has failed; both in terms of generating sufficiently positive results by its own criteria (where at best, success can be described as modest), and in terms of generating the support of those that it pertains to assist. It is likely, of course, that these two failures are inter-related - lack of results jeopardises support and lack of support makes it difficult to achieve results - and that a comprehensive answer to the question is complex, or even elusive. Nevertheless, finding clues to the answer is an important first step in looking beyond the present malaise in ‘development’.

II.iii Why has the Consensus Failed?

With regard to the relative failure of consensus policies by their own criteria - specifically, in terms of generating economic growth that in turn creates jobs and reduces poverty - Rodrik (1996) is instructive. He notes that a distinction can be made between those Washington consensus policies aimed at macroeconomic stability, and those aimed at liberalisation and structural reform. He argues that “consensus on what constitutes appropriate structural reform is based on much shakier theoretical and empirical grounds than is the consensus on the need for macroeconomic stability” (Rodrik, 1996, p. 11), and goes on to show that the successes of Taiwan and South Korea were generally achieved

while following the consensus in terms of macroeconomic stability, but diverging considerably from it terms of structural reform and liberalisation.

A key problem appears to have been the packaging together of these two broad sets of reforms, with little attempt to analyse more fundamentally the impacts of individual policies. Rodrik (1996, p. 13) argues that “the new orthodoxy was built on two mutually reinforcing pillars: one was the set of policies that had been tried by the import-substituting countries and had failed; the second was the set of successful policies implemented by the East Asian tigers.” However, it is clear that in practice there has been significant overlap between the policies that were condemned fairly universally as unsuccessful in the light of negative experiences with import substitution, and those that were implemented as part of the successful growth experiences of the tiger economies during the 1980s (Amsden, 1989; Wade, 1990; World Bank, 1993; Singh, 1992, 1994; Rodrik, 1995, 1996; Dasgupta, 1998). Indeed, Rodrik (1996, pp. 13-14) argues that the very practice of broadly grouping ‘import substitution policies’ has generated confusion, and that “failures were often misattributed to microeconomic policies, when their sources lay either with unsustainable macroeconomic policies or bureaucratic and institutional shortcomings.”

A powerful potential explanation for the lack of success of consensus policies can therefore be found in this bundling together of policies. It may be that only part of the lesson was learned from the East Asian experiences, and insufficient attention given to the careful analysis of individual policies and their effects. Hence certain potentially useful policies may have been unnecessarily discarded. Singh (1992, 1994), for example,

focuses on the dismissal of a role for dynamic industrial policy. He argues that a correct lesson from the East Asian experience should have been that “countries with reasonably effective states ... should pursue a dynamic industrial policy to bring about the desired structural transformations in the economy as speedily as possible, to achieve rapid economic growth” (1994, p. 1881). Similarly, the bundling together of policies may have meant that those policies which were encouraged may have been implemented at a time and/or alongside other policy measures where they were not entirely appropriate. Indeed, other aspects of policy implementation that have frequently been criticised include the speed and sequencing of reforms and their co-ordination among different sets of decision-makers (Taylor, 1997; Collier and Gunning, 1999; Van der Hoeven and Taylor, 2000).

Related to all of the above is a lack of concern with context in the implementation of policy. Much criticism of the World Bank and IMF has focussed on their seemingly singular policy prescription to countries with diverse political, cultural, social and economic circumstances. This has been summarised by Joseph Stiglitz as a homogenous four-step programme of privatisation, market liberalisation, market-based-pricing, and free trade,⁸ and Platteau (1994, p. 534) comments sceptically that “the way the recipe is usually presented implies or suggests that the market is a system that can be planted with guaranteed success in any soil at any time.”

Such an assumption appears problematic. Indeed, Moseley (1991, p. 242) concluded from an analysis of structural adjustment programmes implemented during the 1980s that “what immediately becomes clear is that the appropriateness of packages ... depends entirely on the stage of development which the recipient country has reached”. In

addition to the stage of development, there are also cultural, social, political and institutional contexts to consider. Platteau (1994), for example, considers the importance of social and moral norms. He argues (1994, pp. 535-6):

[T]he social fabric and the culture of human societies matter a great deal and, to the extent that norms and cultural beliefs are rooted in historical processes, history necessarily determines the development trajectories of particular countries. ... Viewed in this perspective, the market appears as a delicate mechanism which may fail to generate powerful effects (in the sense of giving rise to efficient trade) if it is embedded in an uncongenial cultural fabric.

To take a more specific example, in examining the case of Argentina, Nochteff and Abeles (2000) suggest that deregulation has led to economic and social fragmentation. They note that the concentration of economic and political power has resulted in abuses of dominant positions and extraordinary profits on the one hand; unemployment, poverty and worsening income distribution on the other. The suggestion is that a neo-liberal approach to regulation in the Argentinean social, cultural and institutional context has implied a void, whereby checks on corruption and malpractice are seriously weakened. If this is the case, and more recent events in Argentina are suggestive of deep-seated economic and social problems rooted in corruption,⁹ then it supports the hypothesis that an important factor in the failure of consensus policies has been the lack of attention given to context. Indeed, Pastor and Wise (2001, p. 72, emphasis added) suggest that “Argentina’s experience has painfully shown that the trick is to make reform work in the *context* of political and social realities”.¹⁰

⁸ See ‘IMF’s Four Steps to Damnation’, *The Observer*, April 29th 2001.

⁹ See, for example, Pastor and Wise (2001), ‘Middle Classes Face Ruin as Argentina’s Crisis Widens’, *The Observer*, December 23rd 2001, ‘Divided they Fall’, *Financial Times*, January 2nd 2002, and ‘Back to Revolution’, *Financial Times*, February 21st 2002.

Finally, a third potential explanation can be found in the nature of the international financial system. Policies of liberalisation and deregulation of financial markets expose economies following consensus policies to an international financial system where capital can flow increasingly easily, and in increasingly large volumes, across countries and markets.¹¹ In recent years this system has been associated with a number of financial crises, most notably in Asia, Russia and Latin America, the causes of which have been widely debated (Chang, 1998, 2000; Singh, 1999; Wolfson, 2000). The volatility of financial flows, and the contagion effects of such crises across neighbouring economies, can clearly be damaging to countries seeking to combine macroeconomic stability with consensus policies of liberalisation. Indeed, recognition of this following the East Asian crisis has led to calls, within both academic and political circles, for a general re-design of the international financial architecture and re-evaluation of the roles of the Bretton Woods institutions (Chang, 2000; Jha and Saggarr, 2000). In particular, debate around the implementation of a ‘Tobin tax’ (Tobin, 1974, 1994) on international currency transactions has returned with force in recent years (Raffer, 1998).¹² It is possible, therefore, that the volatile nature of the international financial system, particularly when combined with inappropriate sequencing of reforms, may have at times jeopardised the success of consensus policies.

¹⁰ See Chapter Eight for detailed analysis of the case of Argentina.

¹¹ The growth in global capital flows has been quite spectacular during the last decade. In 1997 an estimated total of \$256 billion of private sector long-term capital flowed into developing countries, which compares with just \$41.9 billion in 1990 (World Bank, 1998b, p. 9, table 1.2).

¹² For a flavour of some of the recent political debate around the Tobin tax, see also, ‘Could this be the world’s most popular tax ever?’, *The Observer*, July 18th 1999, ‘US Opposed to Tax Aimed at Curbing Speculators’, *Financial Times*, August 30th 2001, ‘Schroder Calls for Debate on Speculative Capital Flows’, *Financial Times*, September 5th 2001, ‘Franco-German summit to look at Tobin tax’, *Financial Times*, September 6th 2001.

II.iv Exclusion from Governance

Failures in terms of generating sufficiently positive outcomes, and based on specific deficiencies identified above, undoubtedly underlie the current lack of popular support for the Washington consensus development agenda. However, we suggest that integrally related to the lack of both results and support, is a deep-seated failure associated with the consensus. Our thesis, introduced here and explored in detail in Chapter Two, is that there is a failure to engage people in the decisions and processes surrounding their development, implying an *exclusion* of people from the governance of their development.

The Washington consensus is built around a certain sort of private sector economy. Specifically, it centres on a particular model of capitalism emanating from the United States and organised around transnational capital. This model is characterised by a denial of access to the ‘global’ economy for the vast majority of potential participants. For example, Ruigrok and van Tulder (1995, p. 151) suggest:

[W]hat is often referred to as ‘globalisation’ is perhaps better described as ‘Triadisation’. The 1980s internationalisation of trade and investments was largely limited to the United States, the European Community and Japan as well as East and South East Asia...other regions on the globe have been excluded from this supposedly ‘global’ restructuring process.

The policy prescriptions of the Washington consensus are geared towards development through opening markets and creating the conditions for private investment. Hence they are designed to address this form of exclusion by encouraging ‘less developed’ countries, and people within ‘less developed’ countries, to become part of the global economic system. However, there are dangers inherent in following this particular path of

inclusion; such a path does not, on its own, address exclusion from governance, and it may, under certain circumstances, exacerbate it.

Specifically, while establishing macroeconomic stability can be argued to have created conditions whereby less developed countries are better able to access the global economy, measures aimed at liberalisation, deregulation and structural reform can simultaneously create niches for powerful transnational players to dominate local economies. Indeed, where countries are able to enter the global economy, it is generally through the activities of transnational firms, the majority of which maintain their roots in a handful of developed centres.¹³ If entry into the ‘global’ system comes largely in terms of exposure to flows of transnational capital and the direct investment of transnational firms, then it can be argued that exclusion from the governance of development within that system persists, or indeed worsens. At a local level, communities have limited means of shaping the scale and nature of investments in line with their development aims. Moreover, the key decision-making institutions – the Washington institutions advising on policy, the national governments implementing policy, and the transnational firms making decisions based on that policy – are far removed from local communities, arguably rendering it difficult to engage people in the key decisions and processes surrounding their development.

Essentially, we are suggesting that a lack of engagement, lack of (actual and perceived) power over one's own destiny, underlies the failures of the Washington consensus. Not

¹³ Hymer (1972, p. 124) suggested that “one would expect to find the highest offices of the multinational corporations concentrated in the world’s major cities”, and more recent literature in the field of economic geography has developed the concept of ‘World Cities’, these being strongly associated with the location of transnational firms (Friedmann and Wolff, 1982; Friedmann, 1986; Beaverstock *et al.*, 2000; Taylor, 2000).

only does it impact negatively on the support of people for the current agenda, but through this it also potentially undermines the scope for achieving outcomes sought by policy-makers working within the consensus. Distance from policy-making, along with a feeling that little is being done in line with local aims and objectives, inevitably breeds concern as to the legitimacy of policy measures. Indeed, distance may create the impression that nothing is being done at all. In turn, failure to engender support in policy programmes may, in cases, jeopardise the outcomes of policies that require support for success, thus contributing to failure in terms of the Washington consensus' own criteria.

The thesis of exclusion from governance is explored further in Chapter Two in terms of strategic decision-making, and further analysis and exploration of its implications permeate the remaining Chapters. An immediate concern needs to be explored first, however. Our argument implies that the failure of the consensus can be seen, at least partly, in terms of: a mismatch between what the international institutions at the heart of the Washington consensus see as development and what communities want from development; and/or a failure of those institutions to effectively communicate the relevance of their policies to what communities want from development. In either case it is clear that there is great potential for misunderstanding around what is actually desired from development. This is of fundamental concern, and the rest of the Chapter seeks to provide an analytical framework by exploring what is meant by development.

III. QUESTIONING THE MEANING OF DEVELOPMENT

III.i Uses of the Word 'Development'

The word 'development' is extremely widely used in a variety of contexts. Its primary connotation is of 'moving forwards' or 'progressing' to a state that is in some way 'better' or 'more advanced' than that which currently exists. The Collins English Dictionary (1986, p. 422) gives six definitions of 'development', and fifteen of the verb 'to develop'. The primary definition of 'development' is "the act or process of growing, progressing or developing", and that for 'to develop' is "to come or bring to a later or more advanced or expanded stage". This suggests that in general usage the word 'development' is *dynamic*, in that it implies comparison of two states of being, but also that it is *subjective*, in that it requires an evaluation of which of the two states is 'better'.

In economics the word development carries a more specific usage. It has been applied most noticeably to *label* the processes of enhancement of economic life to which countries are believed to aspire. Moreover, it is used to *label* countries themselves with respect to their progress in terms of these processes. A variety of specific terms are used to label countries with respect to their 'development'; a country can be 'developed', 'developing', 'less developed', 'under developed' and 'least developed', amongst others. For simplicity, we confine ourselves to the trio of 'developed', 'less developed' and 'developing'. The latter two terms loosely refer to those economies in Africa, Asia, Latin America and Eastern Europe that have not yet reached the levels of 'economic advancement' and 'prosperity' of the 'developed' countries in Western Europe, North

America, Australasia and East Asia.¹⁴ However, while they are often used almost interchangeably, there is a sense in which there is a fundamental difference between the two terms. 'Less developed' describes a country with a lower *level* of development than the advanced industrial economies (the 'developed' countries). 'Developing country', however, says nothing about the level, but comments solely on the *process* of development. It is *dynamic* rather than *static*, and implies that some change for the better is actually occurring. Thus in practice (common usage - as opposed to economists' usage), it is possible for a country to be 'less developed' but not 'developing', or indeed to be 'developed' and yet still 'developing'.

Common to all three terms is the fact that they rely on a specific concept of economic development for their definition. A country can only be 'less developed' or 'developing' relative to a given notion of what it is to be 'developed' or 'to develop'. Crucially, the relevant concept may differ according to the views of different groups or even individuals. For example, one group may argue that movement towards a free-market society constitutes development. A developed country would then be one that was largely liberalised, a less developed country one where significant controls on the market remained, and a developing country one where liberalisation of controls was occurring. It could be argued, for instance, that such a view is consistent with the IMF/World Bank approach to development under the Washington consensus and as practised in their various programmes (Williamson, 1993; Taylor, 1997). Alternative groups, however, may see development as being reflected primarily by rising income, or they may view it

¹⁴ Bauer and Yamey (1957) made a similar distinction for the term 'under-developed countries', but with reference to North America, Western Europe and Australasia. The fact that we include East Asia highlights the significance of the experiences of Japan and the 'tiger' economies.

in the context of education/knowledge, health, poverty, equality, communication, or other aspects of society.

The labels ‘less developed’, ‘developed’ and ‘developing’ are hence open to different interpretations, and carry with them the views of those that use them. Indeed, Seers (1969, 1972, p. 22) describes ‘development’ as “inevitably a normative concept, almost a synonym for improvement”, while Rist (1997) cites Poerksen (1995) in labelling ‘development’ a ‘plastic’ word. While “it first had a clear and precise meaning”, it “has now been so widely adopted in technocrat parlance that it no longer means anything – except what the individual speaker wishes it to mean” (Rist, 1997, p. 11). There is hence considerable room for subjectivity in determining how ‘developed’ a particular place is thought to be, or whether it is ‘developing’. Indeed, that the word is used at all in a labelling sense is perhaps unfortunate.

III.ii Differences in the Evaluation of ‘Development’

Subjectivity in the use of ‘development’ as a concept is reflected in a wide range of approaches to evaluating development. Arthur Lewis, one of the earliest and most significant thinkers in development theory, considered development within a framework of unlimited supplies of labour, thus suggesting that we might evaluate development according to unemployment. A ‘less developed’ country could then be defined as a country with a large pool of people without work, or whose productivity is close to zero (Lewis, 1954). This certainly describes the case in many of the countries that would today be considered as less developed but, as Lewis pointed out, it is also “not true...of some of the countries usually now lumped together as under-developed” (*Ibid*, p. 140).

Moreover, there are a number of countries today considered ‘advanced’ that would also appear to fit these criteria. Spain and France, for example, are today both characterised by large pools of measured unemployment, and yet are considered as developed countries. It seems therefore that such a definition is too simplistic.

Many discussions of development instead seek to characterise ‘less developed’ countries with reference to *a number* of common features that such economies may share. Todaro (1977, p. 38), for example, lists six: low levels of living (low income, high inequality, poor health and education); low levels of productivity; high rates of population growth; high and rising levels of unemployment and underemployment; dependence on agricultural production and primary product exports; and vulnerability in international relations. International organisations concerned with ‘development’, such as the World Bank, the United Nations and the OECD, generally attempt to follow this broader approach through production of a wide range of statistics with which ‘development’ can be evaluated. For example, the 2001/2002 *World Development Report* contains twenty-two tables of statistics, covering characteristics such as economy size, poverty, income distribution, education, health, productivity, growth, government finances, balance of payments and global trade (World Bank, 2001).¹⁵

Problems arise, however, in terms of how these statistics are used to make judgements, and traditionally it is the case that evaluations of ‘economic’ development have relied on income as the overriding classifying characteristic. The World Bank’s *World*

¹⁵ The full set of tables is contained at the end of the report (World Bank, 2001, pp. 274-316). There are similar tables, geared more towards ‘human’ characteristics, in the UNDP’s *Human Development Report*. Furthermore, the World Bank publishes a volume and CD-ROM each year entitled *World Development*

Development Report exemplifies this approach. While a detailed array of statistics indicate that income is not considered all that matters, it is clear that “the main criterion used...to classify economies and broadly distinguish stages of economic development is GNP per capita” (World Bank, 1999, p. 227). Countries are hence divided into four groups, explicitly relating to their per-capita GNP: low-income; middle-income; upper-middle-income; and high-income. The success of this methodology for identifying “stages of economic development” is only apparent, therefore, if economic development is considered to be directly linked to income alone. Some thirty years ago, Seers (1969, 1972, pp. 21-22) questioned this, arguing that given “that the complexity of development problems is becoming increasingly obvious, this continued addiction to the use of a single aggregative indicator ... begins to look like a preference for avoiding the real problems of development.” It is clear that such an addiction has persisted to some extent, certainly within the World Bank. Moreover, reference that income classifications are “updated to reflect the World Bank’s current operational guide-lines” (World Bank, 1999, p. 227) clarifies our earlier point that labels of ‘development’ inevitably carry with them the views of those that use them.

The United Nations Development Program (UNDP) provides an alternative methodology, with the aim of evaluating the broader notion of ‘human’ development. Analysis in their *Human Development Report* centres on the ‘Human Development Index’ (HDI), “a composite index of achievements in basic human capabilities in three fundamental dimensions - a long and healthy life, knowledge and a decent standard of living” (UNDP,

Indicators, which is produced in conjunction with various other agencies and contains a huge array of ‘development-related’ statistics on 148 countries (World Bank, 1998c).

1997, p. 44).¹⁶ The index itself allows countries to be classified into groups of low, medium and high ‘human development’. However, while the evaluation of what constitutes ‘human development’ involves more than simply income, it is clear that it remains relatively narrow and inflexible, something acknowledged by the UNDP (1997, p. 44). Moreover, as with the selection of income to represent ‘economic development’, a fair degree of subjectivity is evident in choosing the indicators to include in the index, something that is compounded by decisions pertaining to its precise specification.

Taken together, the two approaches provide a striking illustration of the differences and contradictions that arise between groups with different agendas. For example, using data from the 1999 *Human Development Report* (table 1, pp. 134-137), South Africa drops 47 places among the 174 countries if its development is measured by the HDI rather than per-capita GDP. At the same time, Cuba climbs 47 places, while Nicaragua remains unchanged. Furthermore, the average of absolute changes was 13.4 places in 1999, 12.0 places in 2000 and 11.7 places in 2001 (UNDP, 1999, 2000, 2001). These significant differences reflect the agendas of the two organisations, one of which emphasizes ‘economic development’ while the other is concerned with ‘human development’. Neither methodology, however, can claim to capture a definition of ‘economic’ or ‘human’ development that is universally agreed upon. Indeed, the argument can be generalized, and it is highly unlikely that any two groups, or two individuals, will arrive at the same evaluation of countries’ development. Agendas differ across groups, and a country considered ‘developed’ by the criteria of any one group of analysts may actually

¹⁶ The index uses measures of life expectancy at birth, school enrolment ratios, adult literacy, and GDP per capita to reflect the three assumed elements of human development.

be ‘less developed’ by the criteria of another, while one that is ‘developing’ may be ‘stagnant’ or ‘un-developing’.

A closer look at South Africa illustrates further the scope for differences of opinion. The existence of ‘developed’ financial markets and a prominent Western-style business community (including several indigenous transnational companies), along with apparently good transport and utility infrastructure, telecommunications, hospitals, schools and universities, means that it is common to see South Africa as a ‘semi-developed’ country. *The Economist*, for example, groups South Africa with the East Asian economies (and a number of others) as an ‘emerging market’ in their weekly statistical analysis. This is certainly distinct from being ‘less developed’, and has connotations of positively moving towards the market-based ‘ideal’ of the OECD countries, the other group for which a weekly statistical analysis is provided. Behind these features, however, lies a staggering degree of inequality, not only in terms of income, but also in access to the aforementioned infrastructure and services. It is frequently speculated that South Africa possesses the most unequal distribution of income and wealth in the world (May, 2000; Michie and Padayachee, 1998),¹⁷ and statistics show that 24 percent of the population live below the \$1 a day international poverty line, a figure that rises to between 45 and 57 percent with more generous poverty lines (Leibbrandt and Woolard, 1999, p. 40). An example of inequality in access to services can be seen in the finding by Case and Deaton (1999, p. 1080) that educational resources are “sharply different by race, with pupil-teacher ratios in Black schools more than twice

¹⁷ Our own calculations (using data from the South African Labour Development Research Unit (SALDRU) living-standards survey of 1993) indicate a gini coefficient for pre-tax male earnings of around 0.5.

as high as those in White schools”. Hence, from a perspective that views these things as important, South Africa could be considered at a much lower level of development.

The confusion mounts further if we consider recent evidence from the World Bank. In the 1998/99 *World Development Report* South Africa was ranked 37th of the 122 countries providing data, with real per-capita GNP of \$7490. This placed it in the upper-middle-income category. The 1999/2000 report, however, showed real per-capita GNP to have fallen to \$6990, and South Africa moved to the lower-middle-income category. The categories are explicitly stated as broadly distinguishing between “stages of economic development”, and thus by implication the *process* undergone by South Africa has been the opposite of economic development. By these criteria it should be labelled an ‘un-developing’ country, but no such label exists. This example highlights the problems in branding a country according to rigid ‘external’ notions, especially when these rely on aggregate data that are inherently volatile and inaccurate. Such a labelling is meaningless where progress has been made in areas not captured by a specific methodology, or indeed not captured by the specific data. Furthermore, and as we shall go on to argue, such a labelling may damage and distort development objectives.

III.iii Local Development Aims

In the light of the preceding analysis, we question the appropriateness of ‘external’ criteria for development. It would seem to us that if ‘development’ is “the act or process of growing, progressing or developing”, then it is more appropriate to define what it means to “grow” or “progress” with relation to the people who are seeking to do so. After all, a tenet of the market system is that others are not best placed to decide what is

appropriate for an individual or organisation; for example, government is not best placed to decide what a firm should do. An implication is that evaluations of what is desired from development should come from inside countries themselves, indeed from the localities and communities existing *within* countries. Judgements on ‘development’ can then bear direct reference to the aims and desires of the specific communities whose ‘development’ is under consideration, and, when met, development objectives are likely to be *efficient* in the sense that they reflect what is actually desired from the process.¹⁸

Classifications such as those used by the World Bank or UNDP, however, fundamentally impart ‘external’ notions of development. Such judgements, particularly when expressed by influential actors in the world system, inevitably impact on the choices of individual communities, and in cases may deny the possibility of uncovering a strategy that comes from within their own concepts of what constitutes progress. This critique applies not only to narrow evaluations of development such as those based on income or an index, but also has relevance to a broader approach. Indeed, the World Bank and UNDP provide a wide range of statistics to evaluate development, and there has been recent movement by the World Bank, United Nations and OECD towards a joint indicator-based approach. Agreement has been reached between these organisations to focus development efforts on a series of key goals in partnership with less developed countries, and as monitored by a core set of statistical indicators.¹⁹ It is interesting, however, that this agreement originates from three organisations whose roots lie not in the conventionally termed less developed world, but in the developed nations. If we argue that it is important for development to

¹⁸ See also Chapter Two for a discussion of decision-making and the potential for ‘strategic failure’ in the context of the theory of the firm.

¹⁹ For more information, see http://www.oecd.org/departement/0,2688,en_2649_34585_1_1_1_1_1,00.html.

reflect the aims of the developing communities, then this approach requires that the indicators decided upon correspond to those aims.

Communities within less developed countries are indeed likely to seek many of the goals reflected in the chosen indicators; in this case partly because there has been emphasis on partnership between the international organisations and the less developed countries. They will certainly be influenced by what they see in other, richer, countries, and are likely to seek similar objectives so that they will be seen as successful in the eyes of others, not least those providing funds for development. It would be absurd, for example, to state that communities might be opposed to 'better' access to clean water, or 'improved' schools or health facilities, and their perception of what is 'better' is likely to be influenced by what is observed elsewhere.

It would be equally absurd, however, to expect that all communities in all parts of the world would ideally seek exactly the same as that observed in the 'developed world' (itself containing considerable diversity), and reflected in a single set of chosen indicators. They may, for example, seek a system of education or healthcare that is based on different principles to those prescribed from outside. An example might be the recent debate on HIV-AIDS in South Africa. Thabo Mbeki, the South African President, has been severely criticized for recent comments regarding the link between HIV and AIDS. However, abstracting from Mbeki's comments over medical proof of the link, the South African government's underlying argument appears to be that HIV-AIDS needs to be treated differently in an African context, because what is unfolding is a uniquely African

catastrophe, where severe poverty and HIV-AIDS are working together. This, it is argued, demands a holistic and uniquely African solution.²⁰

To take another example, communities might desire a pattern of employment growth and/or income distribution that differ from those seen in parts of the developed world. Washington consensus policies, for instance, are geared towards facilitating domestic and foreign investment in activities that reflect static comparative advantage. This implies a mode of employment generation corresponding to that comparative advantage, which, in many less developed countries, will occur in low-skilled, cheap labour. Such a setting arguably delivers a process of employment generation that perpetuates poverty, increases inequality, and generates poor quality employment relationships. Even if we appreciate the logic behind such policies for an isolated country, Kaplinsky (1993) has noted a fallacy of composition, whereby any value is eroded by simultaneous adoption in competing countries, leading to a process of competitive devaluation - what might be termed a “race to the bottom” (Bruyn, 1999). Crucially, this does not afford localities significant scope to determine their own development, as they are in danger of becoming pawns in the process of competing for inward investment. Indeed, different communities may have different concerns with regards to, for example, the existence of inequality in society or the role of work in everyday life. Different localities may therefore seek models of employment generation based on different principles, and such preferences clearly require channels of expression in the setting and evaluation of development objectives.²¹

²⁰ See ‘Right of Reply: Cheryl Carolus, South African High Commissioner to Britain’, *The Independent*, 12th July 2000.

²¹ The notion of different models of employment generation, and specifically their implications for governance, is taken up in Chapter Seven.

We suggest, therefore, that goals and processes of development cannot be homogenized. Indeed, it is acknowledged by the UNDP (1997, p. 44) that “the concept of human development is much richer and deeper than...can be captured in any composite index or even by a detailed set of statistical indicators”. While indicators can be useful in comparative analysis, communities should ultimately be free to embark on a strategy for development that is rooted in their own history and culture, and that reflects their own development priorities. Inevitably there will be influence from elsewhere - from perceptions that communities in poorer parts of the world have of life in richer areas - and in this respect community-centred development processes are likely to incorporate concern with many of the issues considered important by the developed world and the international institutions. It is also desirable to exchange experiences and advice with other localities, both ‘developed’ and ‘less-developed’, so that mistakes can be avoided and horizons broadened. The danger inherent in making and forcefully expressing external evaluations, however, is that parameters become set in a way that may stifle innovative approaches to societies’ problems, originating directly from the people concerned. A rigid external approach reflects an arrogant assumption that the optimum ‘end’ and ‘process’ have already been discovered, and that these apply uniformly across communities. Most disturbingly, this ignores the wealth of opportunity that human imagination in different community settings may hold for forging development processes that avoid some of the pitfalls of the currently predominant system.

III.iv A Revised Labelling of Localities

These considerations imply that we should treat the labels ‘less developed’ and ‘developing’ with great care. Moreover, they suggest an alternative framework in which

the process of development is seen in terms of individual localities, and in relation to the specific aims and objectives of the communities within those localities.²² In this framework localities would be considered as ‘developing’ only when progress was being made towards objectives defined by the resident communities.²³ A much clearer labelling is then possible, where there is a distinction between *level* and *process*. Furthermore, the *level* of development loses much of its significance in a context where comparison is important only in influencing community aims. After all, what is important at a local level in terms of policy evaluation is not the current *level* of development, but whether or not the community is progressing towards its aims. In particular, therefore, the label ‘developing’ becomes equally relevant for conventionally labelled ‘developed’ and ‘less developed’ countries.

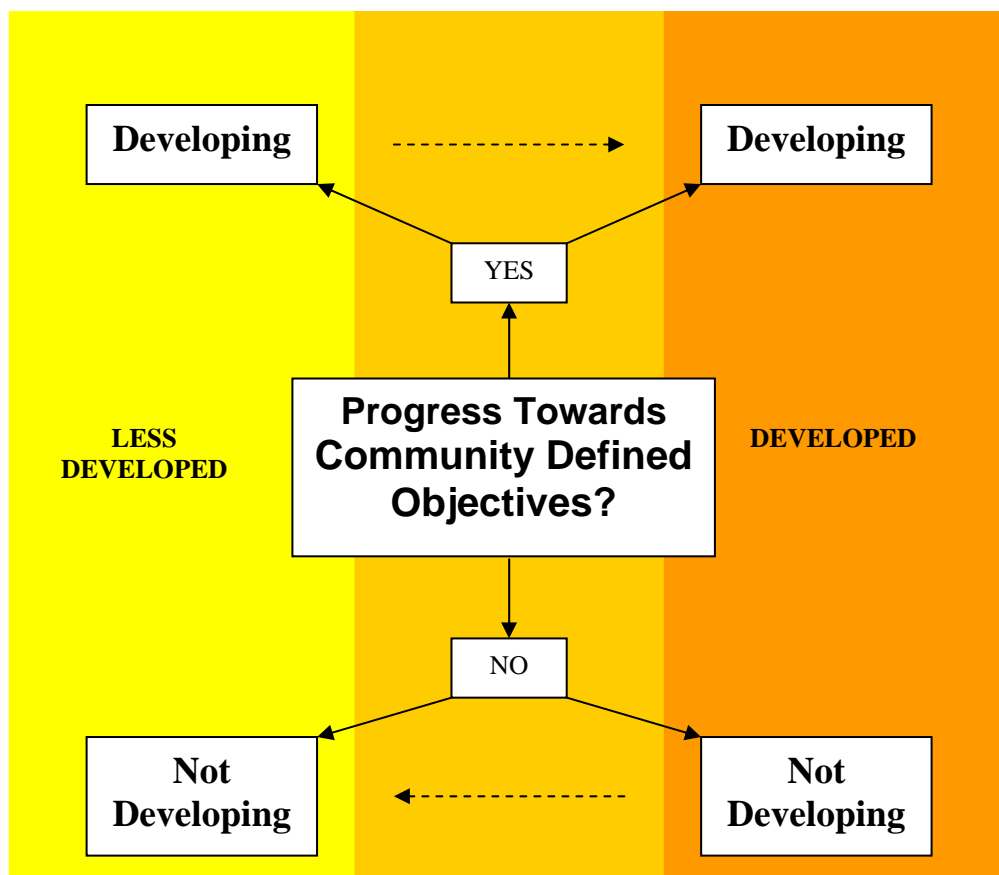
The differences with respect to more conventional labels are illustrated in figure 1. The three shaded areas correspond to conventional groupings of countries, with ‘less developed’ and ‘developed’ at the extremes and a less definite area in-between. This reflects the fact that the distinction between less developed and developed is not solid, and is often bridged by a middle category of nations. These are sometimes referred to as ‘developing countries’ or ‘emerging markets’, although the term ‘developing’ is also used to refer to a broader category of ‘less developed’ countries. The point to emphasize is that individual countries will fall into one of these groupings depending on the *specific*

²² We define a ‘locality’ as a (typically sub-national) geographical area characterised by certain common institutions, practices and identity, and by the relationships that these foster between actors. Such a definition gives fluidity, allowing consideration of different ‘layers’ of locality, and accommodating the communities that exist within and across layers. This approach is explored in detail in Chapter Four.

²³ It should be recognised that this opens up significant questions regarding the flow of people between communities, and therefore the definition of ‘resident communities’. Such questions necessitate further detailed study. However, we might suggest that there needs to be fostered a respect from all concerned in a locality’s development in recognising the potentially different rights and responsibilities that might be considered appropriate for different groups when determining local development objectives.

criteria that are used, as shown for example by the differences in HDI and GDP rankings. A further interesting point is that the term ‘developing’ takes a *static* meaning within these groupings. Countries are labelled as ‘developing’ either to refer to a broad group of less developed countries, or to a stage between less developed and developed, such as emerging market. However, there is nothing to ensure that countries given this label are actually moving forwards, as a *dynamic* interpretation of ‘developing’ would require. In contrast, the figure deploys white boxes to depict a community-related concept of development. Here, it is the *dynamic process* that takes centre stage, and a locality can be ‘developing’ or ‘not developing’ regardless of where it (or the country of which it is part) fits into conventional *levels* of development.

Figure 1: Labelling Development



This does not deny that the terms ‘less developed’ and ‘developed’ serve a purpose - they clearly do, in distinguishing between groups of countries that differ in many common ways. An indicator approach can still be useful, therefore, in generating broad pictures of country characteristics that can be compared with others and over time. This is acknowledged in figure 1 with two dotted arrows, reflecting the potential for ‘developing’ (in the community-defined sense) localities to drift towards various indicators broadly associated with a higher level of development, and conversely for non-developing localities to slip away from them. What should be avoided, however, is an extension of indicator portraits into *rigid* criteria for categorising a specific country by *level* of development, thus making explicit judgements on what must be done to develop. Such a categorisation moves away from the locality as a unit of analysis, and will inevitably require value judgements that are external to communities, and to individual countries. It thus runs the danger of stifling the ideas and processes that stem naturally from within communities, and from within their own perceptions of how they wish their localities to move forwards.

IV. CONCLUSIONS

In this chapter we have introduced what might be termed a ‘crisis in development’ after twenty years of the dominant ‘Washington consensus’ policy paradigm. We have argued that a key reason for the current disillusionment with ‘development’ relates to an exclusion from the governance of ‘development’ for the vast majority of people in the world. This provided a starting point for analysing the meaning of the term ‘development’, where we have argued that the word itself is framed in terms of the views and motivations of those that use it. A definition of ‘development’ that is meaningful for

a locality that seeks to ‘develop’, therefore, must be framed in terms of the aims and objectives of the communities within that locality. This suggests particular concern with how decisions are made concerning those aims and objectives, and surrounding the policies and processes of ‘development’.

Taking up this suggestion, in Chapter Two we analyse strategic decision-making, drawing on a literature that is rooted in the relevance of strategic decision-making for the theory of the firm. This is then fused with a review of past and present development theory and policy, where the aim is both to briefly review the vast development literature and to question the way in which strategic decisions have historically been taken in development policy.

CHAPTER TWO

STRATEGIC DECISION-MAKING: AN APPROACH TO THE THEORY OF THE FIRM AND THE THEORY OF DEVELOPMENT

I. INTRODUCTION

We have argued in the previous Chapter that the meaning of development depends fundamentally on its frame of reference. Definitions, evaluations and judgments on what it means to develop inevitably carry with them subjective views. We have suggested, therefore, that meaningful development should be seen in terms of the aims and objectives of those that are seeking to develop. Implicit in this focus on aims and objectives is a concern with ‘strategy’ and ‘strategic decisions’.

There is considerable literature surrounding strategic decision-making with reference to the corporation, and in this Chapter we draw on this literature to inform an analysis of strategic decision-making in development. In Section II we analyse some of the literature on strategic decision-making in the context of the firm, and introduce the case of the South African transnationals as an illustration. In Section III we consider the relevance of the strategic decision-making literature to development, pursuing an analysis of early development theory and then development theory and practice under the Washington consensus. In Section IV, we draw conclusions from the Chapter.

II. STRATEGIC DECISION-MAKING AND THE FIRM

II.i Theories of the Firm

The starting point for most economic analysis of the firm is the seminal contribution by Coase (1937). Coase sought to present a definition of the firm that was both realistic and tractable by the fundamental economic principle of substitution at the margin. In reconciling the two he developed a view of the firm as one way of organising production, an *alternative* to the price mechanism: “The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism” (p. 390). For Coase, therefore, a firm is “the system of relationships that come into existence when the direction of resources is dependent on an entrepreneur” (p. 393), the question at the margin always being “will it pay to bring an extra exchange transaction under the organising authority” (p. 404).

This focus on the firm as an *alternative* to market exchange has been the departure point for a great deal of subsequent economic analysis of the firm. Coasian propositions form the basis of the important ‘transaction cost analysis’ or ‘internalisation’ framework, which seeks to explore the conditions under which ‘firms’ will be preferred over ‘markets’ in co-ordinating production. Influential in developing these ideas has been Williamson (1975, 1985, 1986, 1996). His approach centres on analysis of the appropriateness of alternative governance structures (markets versus hierarchies in the simplest case) as being determined by the nature of the transactions (and their costs) required in production activity. What he (1996, p. 54) describes as “transaction cost economics” essentially takes a “contractual approach to the study of economic organisation”. It employs the assumption of ‘bounded rationality’ (following Simon, 1947), together with a self-interest

seeking assumption often described as ‘opportunism’, to “help distinguish between feasible and infeasible modes of contracting” (p. 56).

Such an approach plays a prominent role in much of the large body of literature concerned with analysing the transnational firm. Hymer (1960) and Kindleberger (1969) first developed the idea that firms operating abroad must face disadvantages with respect to local incumbents, and that in order to compete they must therefore boast some counterbalancing advantage. Moreover, for them to become transnational it must be beneficial to utilise that advantage themselves rather than sell it to local firms. Their theory has thus opened the way for an exploration of the transnational in terms of transactions costs. Important contributions by Buckley and Casson (1976, 1985), Casson (1982), McManus (1972) and Rugman (1980, 1981), for example, are rooted in the internalisation approach, and internalisation advantages also play a central role in Dunning’s ‘eclectic paradigm’ (1976, 1977, 1985).¹

One view, however, is that the predominant interpretation and extension of Coase’s analysis has been concerned essentially with analysing the distinction between market and non-market exchange rather than with analysing the fundamental nature of firms’ activities. Tomlinson (1984, pp. 591-2), for example, argues that “simple-maximising theories [of the firm] are predominantly neoclassical” and “their primary purpose is *not* the analysis of production but of markets.”² Cowling and Sugden (1987, pp. 9-10) pursue

¹ See also the edited volume by Pitelis and Sugden (1991), especially the contributions by Cantwell, Hennart and Dunning.

² While Williamson’s analysis represents a diversion from some of the assumptions of neoclassical economics - “Orthodoxy invokes stronger rationality assumptions (often hyperrationality) and often suppresses the hazards of opportunism” (Williamson, 1996, p. 6) – he is included in this grouping. On *Markets and Hierarchies*, Tomlinson (1984, p. 603) argues: “whilst undoubtedly sophisticated in many

this line, making the point that “the co-ordination of market exchange is seen as a benchmark, departures from which have to be explained”. They reject the consequent focus of the mainstream literature on markets, and “challenge the Coasian view at a more fundamental level” (*ibid.*, p. 9). Specifically, in seeking to develop a theory of the transnational firm, they argue that rather than a focus on the *type* of exchange (market or non-market), what should be of concern is the *nature* of the exchange: “it should be some underlying quality which is the foundation of analysis because it can only be the essential characteristics which really distinguish exchanges, not superficial attributes” (*ibid.*, p. 9). Indeed, in a later paper (Cowling and Sugden, 1998) they note that Coase (1991, p. 65) himself is critical of the “undue emphasis” within economic theory on contractual relationships, which has meant that “economists have tended to neglect the main activity of a firm, running a business”.

Cowling and Sugden (1987, 1994, 1998) root their alternative approach to the theory of the firm in a re-evaluation of Coase, returning analysis “to *his* real starting point, the notion of economic planning” (1998, p. 61). Indeed, Coase (1937, p. 388) argues that “there is planning within our economic system which is quite different from the individual planning mentioned above and which is akin to what is normally called economic planning”. In doing so he cites Robertson (1923, p. 85), noting that we find “islands of conscious power in this ocean of unconscious co-operation like lumps of butter coagulating in a pail of buttermilk.” For Cowling and Sugden, this concern with planning, with ‘islands of power’, suggests the importance of what they term ‘strategic decision-making’, and leads to a definition of the modern, large corporation as “the

ways, it reinforces the tendency for economists and sociologists to simply counterimpose ‘efficiency’ and ‘power’ as alternative explanations of the modern enterprise.”

means of co-ordinating production from one centre of strategic decision-making” (1998, p. 67). Whilst beginning from essentially the same notion of economic planning, their definition is qualitatively very different from that of Coase. Both market as well as non-market exchanges that are co-ordinated from one centre of strategic decision-making fall under the ambit of the firm, whereas under a Coasian definition only non-market transactions are included. Thus, subcontracting relationships, for example, are included, whereas the Coasian definition would exclude them. This reflects the importance that Cowling and Sugden attach to the *nature* of exchanges as opposed their categorisation as ‘non-market’ or ‘market’, and is illustrated in their discussion of Benetton (1987, pp. 13-14), where they argue that it is “*a priori* artificial to separate Benetton’s eight main plants from the 200 subcontractors”.

In line with this definition, an analysis of the firm can be pursued that begins with the concept of planning, rather than the more conventional focus on markets. Moreover, such an analysis can be firmly rooted alongside mainstream theory of the firm. Cowling and Sugden (1998) demonstrate this in their detailed analysis of Coase (1937) and the later seminal contributions by Alchian and Demsetz (1972) and Williamson (1975) that build explicitly on Coase’s contractual approach. With respect to the contemporary mainstream industrial organisation literature more generally, they argue that “it might seem in a sense an obvious corollary to view the firm in terms of a nexus of strategic decision-making and indeed an inconsistency in modern mainstream theory that this view has not been adopted” (1998, p. 67). Concern with decision-making *per se* is of course not new. It has been the focus of many important contributions to the economics and wider business literatures (for example, Chandler and Redlich, 1961; Cyert and March, 1963; Hymer,

1972; Simon, 1947, 1959). What is different is the proposed centrality of strategic decision-making to the theory of the firm, and the implications that this has both for the perceived boundaries of firms, and for the determination of economic activity within economies as a whole.

In developing the notion of strategic decision-making as central to the theory of the firm, Cowling and Sugden are concerned primarily with issues of *control*. Indeed, in defining strategic decisions they draw heavily on Zeitlin's (1974) observations on corporate governance and control. For Zeitlin (1974, p. 1090), control refers to "the capacity to determine the broad policies of a corporation ... a social relationship, not an attribute." Drawing on Weber (1968) he goes on to conceptualise control as follows (p. 1091):

[W]hen the concrete structure of ownership and intercorporate relationships makes it profitable that an identifiable group of proprietary interests will be able to realize their corporate objectives over time, despite resistance, then we may say that they have "control" of the corporation.

For Cowling and Sugden (1998, p. 64), therefore, "the power to make strategic decisions can be equated with the power to control a firm, where control implies the ability to determine broad corporate objectives." In particular, and referring back to Zeitlin (1974, pp. 1091-92), the broad objectives where such control is exercised are likely to include such questions as "what relationships must the corporations in an oligopolistic economy establish with each other? with the state? with foreign governments? with the workers? with sources of raw materials and markets?" These are the key decisions that determine the overall direction of the firm, forming the 'top' of the decision-making process and hence setting the parameters for lower-level decision-making within the firm.

This perspective on control forms the basis for more detailed analysis of ‘who’ controls the firm, and contribution to the large literature on ownership and control dating back to the pioneering work of Berle and Means (1932). For example, Pitelis and Sugden (1986) challenge the managerialist view on the basis that the ex-post analysis of share distribution is flawed if, as they argue, causality actually runs from control to observed shareholdings. Branston *et al.* (2003) review recent literature on corporate governance, and make the case that “*de facto* control of the modern corporation rests somewhere between a subset of (large) shareholders and the company’s senior managers/board” (p.10).

Following Cowling and Sugden (1987, 1994, 1998) and Zeitlin (1974), the question of ‘who’ controls the firm is especially important because it implies the ability to make strategic decisions *despite resistance from others*. Assuming that economic actors behave in their own best interest, a central tenet of orthodox economic theory, this raises the possibility that strategic decisions made in the interests of an ‘elite group’ (the subset that control firms) will not correspond to the interests of ‘the many’ (that do not control firms, yet have an interest in their activities). Hence there is ‘strategic failure’; the concentration of strategic decision-making power among an elite group of people implies that the many in wider communities are denied the possibility of reaching ‘socially efficient’ outcomes.³

One response to this might be that competitive pressure in markets will force firms to behave in a certain way, thus rendering redundant the idea that firms have the ability to

take decisions despite resistance from others; orthodox economic theory suggests that Pareto optimality is achieved by virtue of perfectly competitive markets. However, there is a long and influential line of literature disputing the existence of perfectly competitive market conditions, and widespread acceptance that markets are in reality characterised by imperfect competition (see, for example, Baran and Sweezy, 1966; Hymer, 1970; Cowling, 1982; Cowling and Sugden, 1998; Encaoua *et al.*, 1986; Geroski, 1995 and Tirole, 1988). Thus if we accept that the control of firms rests with an ‘elite group’ in the context of ‘imperfect markets’, then a strategic decision-making approach to the theory of the firm raises fundamental concerns regarding the achievement of socially efficient economic development.

Indeed, to focus on one dimension of this, there are strong similarities between a strategic decision-making approach to the theory of the firm and Hymer’s seminal contribution on the multinational corporation and uneven development.⁴ Looking to the year 2000, Hymer (1972, p. 114) envisaged a “regime of North Atlantic Multinational Corporations” that would “tend to centralize high-level decision-making occupations in a few key cities in the advanced countries, surrounded by a number of regional sub-capitals, and confine the rest of the world to lower levels of activity and income”. He borrowed from Chandler and Redlich (1961) in distinguishing between Level I, Level II and Level III activities, where Level I refers essentially to high-level (or strategic) decision-making. These activities, Hymer argued, were concentrated almost exclusively at headquarters in the world’s major cities, which have become “the major centres of high-level strategic

³ Cowling and Sugden (1994) develop this idea in detail in terms of “three sets of interrelated systematic deficiencies: transnationalism, centripetalism, and short-termism.” See Cowling and Sugden (1994, pp. 127-32).

planning” (1972, p. 124). In making Level I decisions from these centres, the small groups that control large firms have the potential to influence the fortunes and destinies of localities that may be geographically and culturally distant. Key decisions will reflect primarily the interests of the controlling ‘elite’, which may not be aligned with the interests of ‘the many’ in those localities most affected by their consequences.

II.ii The Case of the South African Transnationals

An interesting illustration of the ability to form strategy despite resistance, and the wider implications of such behaviour, can be found in the case of the South African transnational firms. The South African economy relies heavily on the activities of a small number of indigenous, though large and internationally important, transnational companies. These include the mining giants Anglo American and BHPBilliton (formerly Billiton), the world’s second largest beer brewing firm SABMiller (formerly South African Breweries), and the insurer Old Mutual. Yet while the activities of these large firms have significance for a great many South African individuals and communities, they are governed by only a tiny subset of the interested parties. This subset determines the corporations’ strategies and therefore their wider impacts.

Until recently each of these four firms maintained their decision-making bases in Johannesburg. While this state of affairs was arguably due to the legacy of South Africa’s isolation during the apartheid era, it nevertheless provided a minor exception to Hymer’s (1972) prediction on the geographical concentration of decision-making power in a handful of key world cities. However, in 1997 Billiton made the decision to move

⁴ Cowling and Sugden (1998, p. 64) also note similarities with perspectives on decision-making set out in Milgrom and Roberts (1992) and Bartlett and Ghoshal (1993).

their primary stock exchange listing, and relocate their headquarters, from Johannesburg to London (which was on Hymer's (1972) list of key cities). South African Breweries, Anglo American and Old Mutual made similar decisions in 1999,⁵ and all four companies have since been constituents of the FTSE 100-share index. Moreover, following the actions of these four influential companies, there has been speculation that others will follow suit. Indeed, in July 2000 Dimensions Data, a leading information technology group, became the fifth major South African company to move its primary share listing to London. However, due to recent changes in the FTSE index rules regarding tax registration, Dimensions Data did not have to relocate its headquarters, and remains domiciled in South Africa for tax purposes.⁶

It could be argued that these decisions to move were taken in the interests of a narrow group of shareholders and directors, not necessarily reflecting the interests of broader groups within South Africa. The primary motivation for the moves has been said to be a need to access increased finance for global expansion, fuelled perhaps by fear of hostile take-over were continued expansion not possible.⁷ The re-locations have, however, caused much concern in South Africa. This is reflected in the reported hesitancy of the South African government in sanctioning the moves, and is evident in vocal disquiet by groups such as the South African Congress of Trade Unions (COSATU), among whom it is felt that employment will ultimately suffer.⁸ The ongoing restructuring of the mining industry, and particularly of Anglo American in preparation for re-location, has not

⁵ See 'London listings broaden shareholder base', *Business Day*, Jan. 21st 2000.

⁶ See 'South African companies head for the open door: Groups are seeking overseas listings to raise their profile and gain access to hard cash', *Financial Times*, Mar. 22nd 1999.

⁷ See, for example; 'Crossing the world from the township shebeens to the FTSE: South African Breweries is going courting in the City of London', *Financial Times*, Feb. 11th 1999; 'SA Breweries: No longer a home brew', *Mail and Guardian*, Dec. 11th 1998.

helped dispel these fears.⁹ Furthermore, the increased vulnerability of the Rand has also been attributed to the moves, as significant dividend flows out of the country have made it necessary for South Africa to consistently run trade surpluses.¹⁰ In both senses impacts have been felt within local communities stemming from decisions taken by ‘elite’ groups controlling influential firms. This sentiment is echoed in a more general decision-making context by Michie and Padayachee (1998, p. 625), who argue that South African “conglomerates have been allowed to dictate the government’s policy agenda, including, for example, the successive abandonment of controls on capital.” Here we see a classic example of the ability to make decisions despite the resistance of others.

In addition to concerns over the direct impact of these key decisions, there is an argument that the moves themselves serve to distance the decision-making axis from South African localities, leaving arguably less scope for local actors to assert influence on future decisions that have significance for their communities. From a strategic decision-making perspective, a fundamental concern is that decisions regarding the future of these firms, and therefore of their workers in South Africa, will now be taken in London rather than Johannesburg.¹¹ Hence it is inevitable that they will be increasingly made with the interests of London-based shareholders and fund-managers in mind.¹² Indeed, the decision to be in London also serves to restrict the decision-making ability of managers remaining in South Africa, as it is generally acknowledged that the London Stock

⁸ See ‘Manuel gives green light to big SA firms wanting offshore listings’, *Business Day*, 9 November 1998 and ‘SA Breweries: No Longer a Home Brew’, *Mail and Guardian*, 11 December 1998.

⁹ See ‘Manuel gives green light to big SA firms wanting offshore listings’, *Business Day*, Nov. 9th 1998

¹⁰ See ‘Economic Research Note: South Africa’s Rand Crisis’, *JP Morgan Global Data Watch*, Johannesburg, December 7th 2001, pp. 21-24

¹¹ This concern is also reflected in the reported hesitancy of the South African government in sanctioning the moves. See various of the articles mentioned in other footnotes.

Exchange is far more demanding of companies than the Johannesburg Stock Exchange. Efforts to please the London market will thus impact more heavily on the capacity for South African managers to make certain decisions. This can be seen in the problems experienced by Anglo American, for example, and the continued restructuring that has taken place to appease London fund managers.¹³

That the distance from decision-making implied by these moves will give arguably less scope for South African worker groups or government to assert influence on *future* decisions that have significance for local communities can be seen in parallel examples from around the world. Consider, for instance, the decision in March 2000 by German-based BMW to withdraw from their Rover plant in Longbridge, Birmingham. This came after several threats of closure in the preceding years, which had prompted a substantial planned subsidy package from the UK government (Bailey, 2003). The Longbridge plant was eventually saved from immediate closure by a relatively beneficial sell-off to a consortium headed by a former Rover manager. However, Bailey (2003, p. 84) argues that its long-term future remains uncertain, “as it is doubtful whether MG Rover can develop new models on its own and has no mainstream partner with which to develop them.” Some 24,000 jobs hence remain in the balance (*Ibid.*, p. 84); a considerable weight hanging over the communities that depend on them. Most tellingly, events leading up to the sale demonstrated the lack of influence that local workers in Britain, and indeed the British government, can bring to bear over a company based in Germany.

¹² Foreign share-holdings in Billiton have risen from around 20% to around 60% since the move to London. Those in Anglo American have increased from 10% to 30%, and in SA Breweries from 15% to 45% (‘London listings broaden shareholder base’, *Business Day*, January 21st 2000).

¹³ See ‘Anglo Chief Succumbs to City Pressure’, *The Times*, May 15th 2000.

This notion of distance from high-level decisions is reflected in Hymer's (1972) concern, and in what Cowling and Sugden (1994, p. 128) refer to as 'centripetalism', "the tendency for higher-level economic, political, social and cultural activities to gravitate to the centre – to be lost to the regions, to be lost to the periphery". Indeed, a shifting of headquarters in the way that has taken place in South Africa leaves a void not only in terms of economic decision making, but also in terms of the social, cultural and political activities that go hand-in-hand with higher levels of economic activity. This is a scar that may well truly emerge only in the longer term, as Hymer's (1972) vision is increasingly realised and South Africa completes the transition to a locality where Level II and Level III activities predominate.

Overall, the case of the South African transnationals provides a striking illustration of the dangers that are highlighted by a strategic decision-making approach to the theory of the firm. It demonstrates the potential for strategic failure, whereby increasing concentration of strategic decision-making power in the hands of a few implies a failure to govern production in the interests of the community at large. What is particularly striking in this case is the extent to which this concentration has occurred internationally in such a short period of time, the implications of which for South African communities cannot yet be fully understood. In the next Section, we return to our concern with development more widely, and fuse the strategic decision-making approach as applied to the theory of the firm with a critique of early development theory and policy.

III. STRATEGIC DECISION-MAKING AND DEVELOPMENT

III.i A Strategic Decision-Making Approach to Development

The definition of development presented in Chapter One focuses on the aims and objectives that must be satisfied for development to occur: development is explicitly defined in terms of the aims and objectives of those seeking to develop. Implicit within this is concern with the strategy of development. Indeed, with regards to the firm, the ability to make strategic decisions can be defined as the ability to determine broad objectives in production despite resistance (Zeitlin, 1974). Extending this into a development context, the making of strategic decisions can be equated with the determination and pursuit of the aims and objectives of development. Hence strategic decision-making is central to the very definition of development as suggested in Chapter One. Moreover, the resistance argument is also central; determining the strategy of development means being able to set the aims and objectives of development *despite potential resistance from others*. This is related to the concept of ‘hegemony’, which Wade (2002, p. 215) defines as a “dominant group’s ability to make others want the same thing that it wants for itself.”

Analysing development from this strategic decision-making perspective opens up the potential of ‘strategic failure’ in a similar way that a strategic decision-making approach to the theory of the firm highlights such a danger. If a given locality is to develop according to criteria presented by narrow and/or external interests, despite that locality having different criteria, then it is subject to strategic decisions that may be inconsistent with its own development aspirations. There is a potential for conflict between those making strategic decisions regarding ‘development’ and those seeking to develop in terms

of their own aims and objectives. Indeed, by the definition suggested in Chapter One, the existence of any such conflict would imply that what is occurring is not ‘development’.

To pursue this idea in more detail, the formulation of development objectives and policy ‘externally’ or by an ‘elite’ group of interests can be seen as acts of strategic decision-making in a similar sense to the formation of corporate policy by the small groups controlling corporations. Firstly, it constrains the thinking of localities that are seeking to develop, and restricts the decisions available to them, in a similar way that corporate strategy constrains ‘the many’ that are affected by the activities of a firm. Secondly, like strategic decision-making within the firm, it could be argued that such development prescriptions inherently reflect the interests of ‘elite’ actors in a way that is not necessarily consistent with the broader interests of those affected by their decisions.

Indeed, much of the criticism of current and past development policy reflects such concerns, and examples in this area abound. The US government aid agency USAID, for instance, states as a basic foreign policy that the only route from poverty for the less developed countries is to fully open their markets to world trade. At the same time, however, the US refuses to lift quota restrictions imposed on sugar, textiles and meat imports from, for example, Nicaragua (Equipo Nitlapan, 1999), and has recently received considerable criticism for imposing large tariffs on steel imports to the US.¹⁴ These openly contradictory policies are clearly in line with the broad interests of US-based companies, but possibly at the expense of the interests of communities in Nicaragua and elsewhere where such ‘development’ policies are directed.

¹⁴ See, for example: ‘One Trade Rule for the Rich, Another for the Poor’, *The Guardian*, March 7th 2002; ‘World United to Condemn US Decision to impose 30% Tariffs’, *The Financial Times*, March 7th 2002.

More generally, the IMF and World Bank have received considerable criticism for their approach to less developed countries, and particularly for the inflexibility of their structural adjustment programmes, which explicitly serve the interests of transnational capital by insisting on the rapid opening of markets. The very openness prescribed can be seen as *transferring* the ability to ‘plan’, from governments to those controlling transnational corporations. Moreover, the interests of transnational capital are able to directly influence the institutions making these important decisions. One of the most explicit channels has been the ‘Trilateral Commission’, an elite group of around 300 eminent citizens from North America, Europe, and Japan. Formed in 1973, the aim of the Commission was to use their collective influence to safeguard the interests of Western capitalism (Sklar, 1980a, 1980b; Marchak, 1993). Marchak (1993, p. 110) notes, for example, that the Commission was influential in establishing summit meetings between dominant nations, and that the “participants have made major decisions about ... IMF and World Bank policies, decisions they are empowered to make because together they control voting rights in those organizations.”

In such a setting there is clearly potential for conflict of interest between those making strategic decisions concerning development policy, and the localities that are affected by them; a clear channel for perpetuation of Hymer’s (1972) law of uneven development. Indeed, this has been a theme of development theory and practice over the last fifty years. During this time, development theory and policy has evolved largely externally from the countries towards which it is directed, and has experienced a number of paradigmatic shifts, often in line with more general economic theory, and almost always originating from the US or Europe.

III.ii Strategic Decisions and Early Development Theory

Prior to the 1970s, development was almost universally regarded as a purely economic phenomenon, with the gains from economic growth believed to ‘trickle down’ through the economy. Rostow’s (1953) theory that development proceeds through a series of ‘stages’ was influential, as was the hypothesis of Kuznets (1955), which implied that concern with inequality need not be too great, as growth would eventually be associated with a reduction in inequality. Promoting economic growth was thus seen as the primary aim and objective of development, and therefore of development policy.

Around this overall objective, Keynesian thinking heavily influenced early development theory. Leys (1996) maintains that policy was essentially rooted in the Bretton Woods institutions and regime that were formed at the end of the Second World War, and notes the following (pp. 6-7):

These arrangements were designed to permit national governments to manage their economies so as to maximise growth and employment. Capital was not allowed to cross frontiers without government approval, which permitted governments to determine domestic tax rates, fix the exchange rate of the national currency, and tax and spend as they saw fit to secure national objectives. It is not a great oversimplification to say that ‘development theory’ was originally just theory about the best way for colonial, and then ex-colonial, states to accelerate national economic growth in this international environment. The goal of development was growth; the agent of development was the state and the means of development were these macroeconomic policies.

Within the post-war framework an attractive option for many less developed countries was to institute protectionist measures, and embark on a phase of import substitution with the broad aim of generating growth by propagating domestic industry (Walker, 1997). Balassa (1971) has noted, however, that application of these measures was rarely based

on a consistent programme of action, and was often in response to the demands of special interest groups. Indeed, generally ‘disappointing’ results from such policies, particularly in Latin America, stimulated the emergence of alternative views towards the end of the 1960s.

One such alternative was ‘modernisation’ theory. This proffered that a diffusion of ‘modern’ ideals must take place from the ‘developed’ centres to the ‘less developed’ periphery, the premise being that the institutions and practices of poorer countries were not conducive to ‘development’. Essentially, it blamed traditional values within the less developed world for the failure of policies (designed in the developed world) to stimulate growth and integrate the periphery into the dynamism of the developed core (Schuurman, 1993; Leys, 1996). Thus the very basis of modernisation theory was that development assumed an *external* definition, based on the allegedly modern ideals of the developed world.

The work of Huntington, a political scientist, was particularly influential (Huntington, 1968; Crozier *et al.*, 1975). Leys (1996, p. 67) observes that “throughout his work there runs a strong current of dislike for the confusing, disturbing and contradictory aspirations of the masses, and an admiration for any ‘elite’, bureaucracy or ‘leadership’ capable of containing, channelling and if necessary suppressing them.” For example, a Trilateral Commission report, co-authored by Huntington, concluded that “the vulnerability of democratic government in the United States ... comes ... from the internal dynamics of democracy itself in a highly educated, mobilized, and participant society” (Crozier *et al.*, 1975, cited in Sklar, 1980a, p. 3). Development based on such views corresponds clearly

with the imposition of strategy by a ‘modern’ elite; strategy that will inherently contain concern for the interests of that elite, while suppressing the ability of other actors to form strategy from their own concerns.¹⁵

What is perhaps most interesting is that the policies that were seen to be failing, stimulating interest in ‘modernisation’, were rooted in the economic framework of the period, as instituted by the developed nations. Specifically, the narrow aim of growth, without significant regard for other potential aspects of development, was considered the correct objective by the orthodox thinking of the time. It thus did not arise from the developing areas themselves, but from the developed countries where most economic thought originated. Indeed, Hymer (1972, p. 125) notes that “the trickle-down system also has the advantage – from the center’s point of view – of reinforcing patterns of authority and control” and argues that “it is little wonder, then, that those at the top stress growth rather than equality as the welfare criterion for human relations.” Furthermore, policy was built around the Bretton Woods system, designed by the developed countries to suit their own objectives following World War Two. Shoup and Minter (1980), for example, argue that from the outbreak of the War there existed a planning process in the US centred around the Council on Foreign Relations (a fore-runner of the Trilateral Commission). This was geared towards designing a post-war international system that would afford the US a dominant role, and ultimately resulted in the Bretton Woods system and institutions. As they comment, this was “decision making of the most important kind” (p. 135).

¹⁵ One even wonders whether such views are consistent with the apartheid policies of South Africa, where suppression of people was used to (among other aims) ensure a certain pattern of political (and economic)

Hence, crucial decisions on the aims of development, and the underlying system in which it would take place, were in effect taken by an elite group of developed nations, influenced particularly by the US and by the interests of transnational capital. The decisions can be seen as strategic in the sense that they set the international economic environment in which policy was formed, and in which countries were able to operate. Biel (2000, p. 74), for example, argues that the post-war use of Rostow's (1953) 'stages' theory "was deterministic because the goal was predetermined – it was to be just like contemporary America".

Related arguments can be found in the imperialism literature, and in particular 'dependency theory', associated with authors such as Frank (1967), Dos Santos (1970), Cardoso (1972) and Amin (1976, 1972).¹⁶ These theories emphasise that underdevelopment is not a consequence of policy and practice internal to countries and regions themselves, but an integral part of a world capitalist system. Dos Santos (1970, p. 231), for example, argues that dependency theory "transcends the theory of development which seeks to explain the situation of the underdeveloped countries as a product of their slowness or failure to adopt the patterns of efficiency characteristic of developed countries (or to "modernise" or "develop" themselves)." The domination of capital from the developed centres, and the activities of transnational corporations, it is argued, have continued into the post-colonial era a structure of dependence stemming from colonial relationships (Dos Santos, 1970; Amin, 1972). Cardoso (1972, p. 90) adds that even in the apparently more 'developed' of the 'less developed countries' (such as Argentina, Brazil, Mexico, South Africa and India), the activities of transnational corporations result

development.

¹⁶ See also Brewer (1980) for a critical review of the Marxist-influenced literature on imperialism.

in “an internal structural fragmentation connecting the most ‘advanced’ parts of their economies to the international capitalist system. Separate although subordinated to these advanced sectors, the backward economic and social sectors of the dependent countries then play the role of ‘internal colonies’.”

The arguments of the dependency movement have received considerable criticism, in particular for failing to identify feasible alternatives to the capitalist system that they attack (Nove, 1974; Booth, 1985). They nevertheless command interest for their intuitive interpretation of the structure of relationships between developed and less developed regions of the world. The arguments are inherently linked to those made from a strategic decision-making approach to the theory of the firm. Decisions that influence the scope and ability for less developed countries to develop are seen to originate from outside, in a similar way that the decisions which influence the fortunes of localities are seen to originate from an elite at the top of large firms. In both cases, there is a structure of dependence that arises from decisions being taken in a handful of developed centres. Indeed, Hymer (1972, p. 123) suggested “a *correspondence principle* relating centralization of control within the corporation to centralization of control within the international economy.” It is precisely this principle that provided the foundation for his prophetic vision of patterns of development.

From the early 1970s, the aims of development as seen by economists and policy-makers gradually began to shift away from pure concern with growth, and towards a variety of ‘softer’ conceptualisations. This was sparked by circumstances within many less developed countries, and in particular by the observation that the benefits of growth,

where it was occurring, did not appear to be trickling down to low-income groups (Chenery *et al.*, 1974). Seers (1969, 1972), for example, questioned the confusion of economic development with economic growth, and suggested that concern should rather focus on poverty, unemployment and poverty. Indeed, Colclough (1993, p. 5) argues that it became widely accepted at this time, among both academics and development professionals, “that ‘development’ meant something closer to the alleviation of poverty than to the mere achievement of aggregate economic growth, and that the latter would not necessarily deliver the former”. There were variations within this; the World Bank, for example, emphasising the process of ‘redistribution with growth’, while the International Labour Organisation (ILO) took an approach concerned with the provision of ‘basic needs’ (Chenery *et al.*, 1974; ILO, 1976; Ghai *et al.*, 1977).¹⁷ Such approaches did not dominate for long, however, and from the late 1970s there was what Toye (1993, p. 44) has termed a “counter-revolution of development theory”. The challenge came from the neo-liberal doctrine that has more recently become associated with the Washington consensus.

III.iii Strategic Decisions and the Washington Consensus

While broader and softer conceptualisations of development remained in the minds of many commentators (Sender, 1999), the theoretical and policy approach clearly hardened during the 1980s to one narrowly centred on markets. This was seen, for example, at the end of the decade in the influential 1991 *World Development Report*, which, reflecting on forty years of development experience, explicitly recognised and advocated a so-called

¹⁷ See also Beckerman (1977) and Singh (1979), respectively, for further discussion stimulated at the time by these two approaches.

‘market friendly’ approach to development.¹⁸ The softer ‘poverty-based’ approaches that had started to emerge in the 1970s essentially expressed ‘external’ views on what constituted development, but they appeared to allow certain scope for self-determination of goals by the nature of the broader framework that they offered. In particular, they were multi-faceted and did not have the same theoretical prerogative to emphasise rising GNP, market liberalisation, or any other narrow indicator above others. However, the emergent neo-liberal framework arguably stifled the development of such softer approaches. Consensus, led by the US, moved rapidly towards a hard and rigid approach based around the centrality of markets, and rooted in the ‘ideal’ of a global capitalist system. Wade (2002), for example, argues that US “foreign economic policy since at least the first Reagan administration in 1980 has aimed to convince the world of the truth of liberal free market ideology”. Moreover, as suggested in Chapter One, the resulting ‘Washington consensus’ remains influential today. Indeed, in a world still very much dominated by Washington consensus views, we argue that development policy can still be analysed in a framework where strategic decisions are taken away from the localities where their consequences are felt.

While the theoretical motivation for the neo-liberal doctrine is rooted in the efficiency of markets, and associated with economists such as Bauer, Balassa, Krueger, Lal and Little (Colclough, 1993), its practical manifestation has coincided strongly with the interests of transnational capital, as explicitly expressed through pressure groups such as the Trilateral Commission (Sklar, 1980a, 1980b; Phillips, 1980; Marchak, 1993). This has been embodied in the privatisation and deregulation policies of the developed economies

¹⁸ See also Singh (1998) for a detailed analysis of the approach set out in the 1991 *World Development Report*.

(led in particular by the US and UK), and more generally in momentum towards a form of global capitalism whereby capital can move without restriction across markets and borders. In turn, these forces have been strongly reflected in the policy stance of the Bretton Woods institutions towards less developed countries (Phillips, 1980; Taylor, 1997; Wade, 2002); structural adjustment programmes have essentially comprised measures to liberate markets (both domestic and international), to privatise state-owned industry, and to ensure macroeconomic stability through tight monetary and fiscal policy. Most crucially from a strategic decision-making perspective, the *nature* of the system is such that less developed countries typically see themselves as having little choice over the policies that they can employ. They are compelled to comply with the protocol of the international system.

The IMF and World Bank play a central role in this compulsion, through loans issued to indebted countries and the conditions they are thus able to impose. The majority of funds for the IMF are contributed by developed nations, and this is reflected in the allocation of votes within the organisation, sixty per cent of which are in the hands of twenty-one developed countries.¹⁹ The World Bank has a similar voting structure, and Wade (2002) argues that US influence is particularly strong. He outlines “several mechanisms of influence over the Bank not available to any other member” (p. 218) and argues that the US Treasury “has exercised a *de facto* veto” on the appointment of the chief economist” (p. 220). This is revealing from a strategic decision-making perspective. It implies that a small group of developed nations, led by one powerful developed nation, have

¹⁹ These 21 countries comprise the 15 European Union nations, plus the United States, Canada, Japan, Australia, New Zealand and Switzerland. The statistic is calculated from data on the IMF web-page, found at <http://www.imf.org/external/np/sec/memdir/members.htm>.

considerable influence over policy decisions that impact directly on the development paths of less developed countries, and that constrain their own decision-making ability.

While this elite group supply a majority of the funds for the institutions, it would be naive to believe that these were contributed without the expectation of being able to serve home interests; for example by pushing for the opening of markets so that home transnationals can expand into new areas. In this sense, the decision to supply funds is a strategic one. Indeed, Phillips (1980, p. 468) comments that “the fundamental work of the highly powerful U.S.-dominated IMF in supporting and strengthening policies of economic expansionism and so-called free trade for the industrialized West has fitted well with the basic policies of world economic management promoted by the trilateralists.” There is similar concern about the activities of the World Bank, and the recognised ability that it has to influence policy debates within developing countries (Sender, 1999). Wade (2002, p. 217) argues that “as its own bilateral aid programme has shrunk, the US has found the World Bank an especially useful instrument for projecting its influence in developing countries”. Its dominance in the development research arena is a valid cause for concern, and has stimulated accusations of “disguising a multimillion dollar ideological marketing operation as research” (Taylor, 1997, p. 147).

Although the IMF and World Bank are central to the apparatus of the global economic system, the nature of a system organised around transnational capital is itself sufficient to strongly influence the development paths pursued by governments. The policy of the South African government following the end of apartheid in 1994 serves as a striking example. Despite its left-wing ideology while in opposition, since 1996 the African

National Congress (ANC) have implemented an orthodox macroeconomic policy of the type advised by the Washington consensus. The stress of policy has correspondingly been on deficit reduction, tight monetary policy, privatisation and trade liberalisation; an approach that has been criticised by many analysts for lack of ambition in a country where inequality, poverty and unemployment pose enormous problems (Adelzadeh, 1996; Michie and Padayachee, 1998; Weeks, 1999).

There is a strong case that South Africa has forsaken opportunities to implement policies that would address some of the problems plaguing its communities, in favour of being seen to comply with the minimalist role for government perceived as ‘good’ by the international investor community. Michie and Padayachee (1998, pp. 633-34) attribute this to six factors, and noticeable among them are the role of South Africa’s powerful conglomerates, the moral persuasion (without direct leverage, as is the case in many other countries) of the IMF and World Bank, and the thoughts of an influential group of academic economists, who perceive ‘no alternative’ in present global circumstances.²⁰ Moreover, they argue that the policy debates forming the backdrop to this stance have drawn “extensively on international evidence, without addressing the peculiarities of the South African situation” (p. 628). In this sense, the very environment created by the vision of a global capitalist society can be seen to bear an overwhelming influence on the development strategies of individual countries, and therefore localities.

²⁰ Similar arguments can be made with regards to the process of neo-liberal reforms undertaken in Argentina during the 1990s (see Chapter Eight). Nochteff and Abeles (2000, p. 69), for example, assert that “the government was faced with a sort of desperate political and ideological urgency to privatize and deregulate...ushered in by its seeking to gain the confidence of both the “Washington Consensus overconfident investors” and the international organisations (IMF, World Bank); (and)...by the intellectual pressure of neoliberalism (and its prestige as the “only conceivable economic wisdom”)”.

Indeed, countries that have attempted to pursue different paths, such as China or Cuba, have often been derided in international circles. Within the context of the existing system, such derision is dangerous as it discourages both foreign and domestic investment. Consequently, countries have reason to be wary of experimenting with alternatives to strategies of the form prescribed by the Washington institutions. This has not always been the case, and there is considerable evidence to suggest that the positive growth experiences of Japan and the Asian ‘tiger’ economies were achieved alongside an explicit rejection of the Washington consensus doctrine (see, for example, Rodrik, 1995; Singh, 1992, 1994; Wade, 1990; Amsden, 1989; Johnson, 1982). It could be further argued that the more recent difficulties in these countries have arisen because, despite government planning and intervention, their industrial development was built around large firms, which have then been swallowed up into the global capitalist system, taking decision-making with them (Cowling and Tomlinson, 2000, 2002).

Whether through direct leverage or as a consequence of the system, we can identify a framework where decisions concerning strategy for development, and indeed the ultimate goals of development, are taken away from the people directly concerned. It is difficult to see how policy-makers in Washington, for example, can identify directly with the development interests of a specific community in Nicaragua, Argentina or South Africa, and yet strategic decisions regarding the agenda for development originate from there.

A classic example highlighting these issues can be found in the case of the transition economies of Eastern Europe, where Williamson (1993, p. 1329) argues that Washington Consensus ideas “have had their most dramatic manifestation”. Many of these countries

have experienced significant difficulty in changing rapidly from a command to a market system. Had rapid transition of one particular form not been so forcefully advocated by external institutions, it is certainly possible that superior development paths, more in line with the aspirations of communities within those countries, may have evolved. In practice the overwhelming force behind Western free-market ideology meant that right across Eastern Europe the only possible aim of transition was a 'pure' free-market economy. Indeed, there was often pressure to achieve this through a 'shock therapy' approach, which, it is argued, expresses a commitment to reform, enhances the credibility of the government, and acts as "a kind of insurance against any temptation to look for a 'third way'" (Lavigne, 1995). In theory, however, an alternative path may have been, for example, to adopt some form of market socialism. Nuti (1992, p. 27) understands market socialism to be "a 'free market' plus a continued commitment to socialist aims and values", and a transition along these lines may have been more palatable to the governments and people of some of the transition economies.

Bulgaria, for example, has undergone a stalled and fragmented process of market reform since 1990 that has lacked commitment from both government and population. A reflection of this can be seen in a survey six years after reform began, where 29% favoured a back-to-communism proposal.²¹ It is plausible that the painful nature of an uncertain and incomplete market reform process may have been avoided had the Bulgarian people been afforded more freedom to embark on their own process of reforms, which may have benefited from greater levels of commitment.

²¹ See 'Feeling Perkier - Cheery Eastern Europe', *The Economist*, March 2nd 1996

More generally, a divorce between decision and affect can be seen in the current tensions that exist in global society. Behind many of the tensions that have surfaced particularly since the terrorist attacks in New York and Washington DC on September 11th 2001, lies a perception that the spread of ‘Western’ concepts, ideologies and cultures is proceeding fairly relentlessly. Strategic decisions on what development means and how it should proceed continue to be taken by elite groups in the ‘developed’ world, distant from those who have to live with the consequences of these decisions. To overcome these tensions, we argue, requires a change in approach to development, as introduced in Chapter One. It is crucial to align decision and affect in development strategy; to root development in the communities that are seeking to develop. This should not deny free-trade or any of the many positive aspects of the present global system, but it should allow communities to use them as they feel appropriate, and offer the opportunity of using them in ways that have potentially superior results to those that we see today. There cannot be many in the ‘developed’ countries that perceive that the current system is without flaws. Inequality, short-termism, and lack of diversity are common complaints, and there is huge concern at present as to their societal consequences. Particularly crucial, and related to all of these, is the *exclusion* from significant voice in their own development that many people feel, in both ‘developed’ and ‘less developed’ countries. Addressing this exclusion from governance, we argue, is a central challenge of development policy today.

IV. CONCLUSIONS

In this Chapter we have built on the arguments introduced in Chapter One through an analysis of the strategic decision-making approach to the theory of the firm and its application to development theory and practice over the last fifty years. This has

supported the thesis introduced in Chapter One that the lack of progress of and support for current development policy lies in an exclusion from the governance of development; a distancing from strategic decision-making. An analysis of fifty years of development theory and policy from a strategic decision-making perspective indicates that we should fundamentally question to what extent, and ‘for who’, strategies constitute ‘development’. It is the misalignment of decision and affect that is of concern, and the primary motivation behind our arguments for community-centred development processes as presented in Chapter One. In particular, we should beware of the danger of losing development paths that can directly reflect the aims of the communities concerned.

While trade (and therefore politics) is dominated by powerful transnationals, it could be argued that there is little scope for change which will see a radically different global system to that which has evolved until today. Indeed, for the foreseeable future less developed countries appear to have little option but to work with and within the current system, adhering to many of its rules and principles. These principles shape the macro-framework for overall development, where policy is influenced by the imperative to liberalise domestic and international markets, and to reduce the role of the public sector in various aspects of economic life. In this respect, we see a *dual approach* to development as one way forward: working within the system, but seeking to rebalance decision-making power through local and national policies and practices. Such an approach is seen as the first step in a dynamic learning process capable of moving localities towards true democracy in the determination of their development. Chapter Three explores this approach in more detail.

CHAPTER THREE

A DUAL APPROACH TO DEVELOPMENT IN THE SHADOW OF THE CONSENSUS

I. INTRODUCTION

In the previous two Chapters we have made a case for development being conceptualised in terms of the aims and objectives of the people that are seeking to develop. We have demonstrated that typically this has not been the case with development theory, policy and practice in recent history. Strategic decisions concerning development are usually made, or at least heavily influenced, by ‘elite groups’ that are distant from ‘the many’ in communities seeking to develop and obliged to live with the consequences of these decisions. The result is what we might term ‘strategic failure’ in development; the impossibility of achieving social efficiency where there is a divorce between decision and effect, and the perpetuation of patterns of uneven development. In this chapter we suggest a way forward.

In Section II we build on Chapter One, maintaining that current policy re-evaluation within the Washington Institutions does not go far enough in addressing our central concern with the governance of key decisions. We suggest a dual approach of working with and within the system; some initial steps in moving towards a more even distribution of strategic decision-making. Section III develops the argument in terms of local policy, highlighting two cases, from South Africa and Nicaragua, where attempts have been

made to involve communities in decision-making concerning their development. In Section IV we then develop the argument in terms of policies at national level that can potentially enable such participation in decision-making. The focus is specifically on the opportunities presented by processes of privatisation and/or sectoral reform, and we use the case of Mexico to illustrate certain arguments. Section V draws conclusions from the Chapter.

II. A DUAL APPROACH: REDRESSING THE DECISION-MAKING BALANCE

II.i Changes in the Consensus?

We argued in Chapter One that while lack of support for the Washington consensus development agenda has been recognised to some extent within the Washington institutions, this recognition has not extended to a willingness and/or ability to look significantly beyond the consensus approach. Changes in policy emphasis were most noticeably debated during the time of Stiglitz's tenure as World Bank chief economist. He framed these changes in terms of a 'post-Washington consensus' and there was increased emphasis on the roles of knowledge, learning and education in economic development (Stiglitz 1998a, 1998b, World Bank, 1998a). Alongside this, the initial drafting of the 2001 *World Development Report*, led by Stiglitz-appointed Ravi Kanbur, reportedly placed greater emphasis on aspects of income redistribution, poverty reduction and local empowerment in development.

While these appeared to have been promising steps, signalling a questioning within the institutions of widely-perceived policy failures over the last two decades, their intent and scope for real change was questioned by several commentators at the time (Fine, 1999;

Sender, 1999; Standing, 1999). Fine (1999), for example, suggested that the World Bank's use of the notion of 'social capital' allowed it to continue with most of its practices and prejudices while giving the impression of broadening the development agenda, and a similar point could be made with regard to the emphasis on learning and knowledge. There is a danger that this could be applied narrowly; simply confined to their role in enhancing the competitive advantage of 'less developed' localities. This differs to an approach that sees learning and knowledge as central to the ability of each individual to become involved in the decision-making processes that shape the development of their locality.¹ Such a central concern with governance, essentially with democracy, arguably goes further than the World Bank has been willing or able thus far in their change of emphasis. Indeed, Standing (2000, p. 751) is critical of Stiglitz's proposals for a 'knowledge bank' for the very reason that it "offends principles of governance": "The issue is governance. Who determines what is a knowledge gap? Who determines whose knowledge is to be taken into account? And who determines the chosen few to sit in judgement over the knowledge?"

Regarding the specific policy changes that have occurred, it is questionable whether they are 'real' enough or extend far enough to enable communities to be democratically involved in their development in the sense that our approach implies. For example, in the case of the move towards 'participatory' poverty assessments (as a first step in developing 'poverty reduction strategy papers'), Stiglitz (2002, p. 50) comments:

Even if there remains a gap between the rhetoric and the reality, the recognition that those in the developing countries ought to have a major voice in their programmes is important. But if the gap persists for too long or remains too great, there will be a sense of disillusionment.

¹ See Chapters Four and Five for more detailed development of this argument.

Already, in some quarters, doubts are being raised, and increasingly loudly.

Perhaps more enlightening is that the scepticism around apparent changes has been strongly re-enforced by the resignations of Stiglitz and Kanbur, and by subsequent comments from Stiglitz in particular on the general situation within the World Bank and IMF (Stiglitz, 2002; Wade, 2002). Indeed, any arguments that the changes have not gone far enough in addressing fundamental deficiencies in the Washington Consensus approach seem insignificant when those instrumental in driving even these changes appear to have been side-lined.

In this sense there is a strong feeling among many that the outlook appears unhopeful; that any real change in the consensus is not yet on the agenda. It could be persuasively argued that a radically different global system to that which has evolved until today is unlikely in the near future. The question therefore turns to what can be done *within* this system to move *towards* development in line with the conceptualisation presented in Chapter One. It is by small steps, gradually altering people's expectations of what can be achieved by different approaches, that we might hope to stimulate more fundamental changes in the longer term.

II.ii A Dual Approach to Development

For the foreseeable future less developed countries appear to have little option but to work with and within the current system, adhering to many of its rules and principles. However, even if it is accepted that certain principles and hierarchies currently shape the framework for development, this need not mean that communities across the world need

unquestioningly follow patterns set down for them externally. In this respect, we see a *dual approach* to development as the only way to reconcile the desirability of locally-determined processes with the reality of an 'elitist' world system that continues, to a large extent, to dictate development practice. By a 'dual approach' we essentially mean an approach to policy, at national and local level, that facilitates changes in the way in which economic development is governed. However, it seeks to do so while simultaneously appreciating the need to work with and within the current international system.

Undoubtedly conflicts of interest, ideology and practice will arise in such an approach. However, there are clearly opportunities for local economies to benefit from the many positive aspects of interaction in a global economy, while harbouring and strengthening a concern and capacity for redressing the decision-making imbalance that currently prevails within that system. The dual approach implies recognising and seizing such opportunities, working to overcome conflicts as and when they arise, and evolving an approach to development that minimises exclusion.

This suggested approach differs fundamentally from the path that Hymer (1972) put forward for addressing uneven development. He advocated some form of regional planning as a way of reducing the power of transnational corporations. The dual approach differs in that it is theoretically grounded in the idea that people's aims and objectives ultimately determine the essence of development. Meaningful development hence implies democratic engagement in the process from the most local level.

Considered on its own, it might appear that the dual approach does not solve Hymer's concern with the control of transnationals; they might maintain (or even enhance) their ability to play different national and local interests off against each other, "pull[ing] and tear[ing] at the social and political fabric" (Hymer, 1972, p. 133). However, a key element of this approach is that localities are not seen as isolated in their development. Reflecting on the multinationalism and interdependence forged by transnationals, Hymer (*ibid.*, p. 133) noted that the "multinational corporation is still a private institution with a partial outlook and represents only an imperfect solution to the problem of international cooperation". Indeed, to succeed, emphasis on the local determination of aims and objectives in the dual approach must be combined and integrated with an alternative form of multinationalism; one that is more capable of remaining rooted in local aims and objectives and less susceptible to hierarchical control by elite interests.

Such multinationalism might involve partnerships across localities, both geographically close and distant, whereby the sharing of experiences and co-operation over solutions to development problems potentially yields opportunities for mutual benefit. Indeed, it might be better termed *multilocalism*. Sugden (1997) and Cowling and Sugden (1999), for example, analyse the development of multinational (or multilocal) economies along such lines, suggesting that there is scope for localities to act with each other in certain aspects of production; for firms in one place to co-operate with firms from elsewhere, producing and selling together.² Alliances can be forged between localities in a democratic fashion; democratic because each locality's involvement is dictated and governed by the processes within that locality itself.

² This notion is developed in Chapter Four in terms of globalisation, and in Chapter Eight in the context of ways forward from economic crisis for Argentina.

In this way a gradual strengthening of the governance of development at local level, combined with a similarly democratic approach to co-operation across localities, can be seen as a route to changing fundamentally the nature of decision-making in the global economy. A key, however, is to avoid a simple *transfer of power* in decision-making from one 'elite' to another. Indeed, it could be argued that an external international organisation such as the World Bank, IMF or UNDP is more likely to be sensitive to broad community objectives than a local 'elite' that is able to dominate the development process. For this reason their influence might be regarded as desirable. However, *control* by such external organisations is inconsistent with the sort of democracy implied by our definition of development; a fundamental requirement is to see the process of democratisation of decision-making as part of the process of development itself.

Moving towards this is undoubtedly a significant challenge. The idea of a dual approach is that of a first, tentative, step towards a truly democratic development process, both within localities and across localities. It is not something immediate, but rather a learning process that can gain force over time. Hymer recognised that there are no easy solutions to the problem of uneven development, and our suggestion forms a starting point that has solid theoretical underpinnings. From this starting point policies are required that can enable localities and their communities to quietly build strategy, pursuing their own development agendas, engaging with other localities in this process, and yet working within the Washington or post-Washington consensus. In the next two Sections we discuss some examples of potential elements of a dual strategy, at local and national level. If pursued in an appropriate way, such policies are capable, we suggest, of facilitating a learning process of democratic engagement as an integral part of development. In turn,

by embedding concern with processes of learning, communication and governance as central to development, localities might realise future paths that are capable of delivering development in which each person is an integral part; development that is consequently more likely to be in line with their own aspirations.

III. THE LOCAL ELEMENT

III.i Community Involvement in Development Policies: Stutterheim

The town of Stutterheim in the Eastern Cape province of South Africa provides an interesting illustration of the potential for the local element of a dual strategy. In the late 1980s Stutterheim was one of South Africa's most troubled towns, with conflict (often racial) over a range of issues, and widespread economic difficulties across all communities (Nel, 1994). The situation was dramatically altered in 1990, however, with the establishment of the 'Stutterheim forum', following agreement by the municipality "that all people of Stutterheim must come together ... to plan for the future" (Tandy, 1992, cited in Nel, 1994, p. 373). The Stutterheim Development Foundation was subsequently established, a non-profit-making company through which the forum "has overseen the provision of housing, small business support, job-creation strategies, the strengthening of rural-urban linkages and educational upliftment in the poorest areas of the community" (Nel and Humphrys, 1999, p. 284).

These achievements were driven entirely from communities within the locality, and did not benefit from facilitation or funding from central government (*Ibid.*). Thus, local strategy can be seen to have existed alongside, rather than in conflict with, the (externally determined) neo-liberal macroeconomic policy of the South African government.

Moreover, it appears to have enabled a group of communities to take charge of various issues central to their own development.

A report by Mncwabeni and Bond (1999), however, suggests that there remain substantial problems in the town that warrant a more critical perspective on its success. In particular, it is said to have re-segregated along racial lines in the years following initial co-operation, with more than three quarters of the community becoming effectively excluded from resource distribution, local democracy and development planning. It is also argued that the activities co-ordinated by the Stutterheim Development Foundation have not managed to develop beyond a few discrete projects, many of which have proved unsustainable. Nevertheless, there are valuable lessons to be learned from the Stutterheim experience, in particular from asking why the initial impetus appears to have been lost.

It is likely that greater short-term success with the projects would have made it easier to maintain community cohesion and wide participation. With regard to project sustainability, questions were asked quite early on (Nel, 1994), given that financing was reliant on externally raised funds from, among others, the Development Bank of Southern Africa. Finance can be a significant barrier to implementing local development strategy, and projects that require external finance typically need to demonstrate the ability to be sustainable over the longer term. In the case of Stutterheim, despite skills training projects, people have been left unemployed or forced to leave the area in search of work (Mncwabeni and Bond, 1999). Inability to accompany skills training with jobs, thus rendering the training unsustainable, may have had the dual effect of discouraging further community efforts and reducing the likelihood of additional funds.

Sustainability in terms of employment generation is particularly important, especially given the likelihood of limited finance. In this regard, the way in which investment is utilised is crucial. If externally funded investments in infrastructure such as housing, roads, schools or other services are to bring maximum and sustainable benefits, it is imperative that they are carried out in a way that best meets the long-term needs of local communities. In terms of local employment generation, for example, this might involve special concern to use local labour and locally-produced materials, so as to widen skills and give momentum to the local economy. Most importantly, however, an implication of our approach to decision-making in development is that to accurately understand and reflect the long-term needs of communities requires their active involvement in the planning and implementation of such investments. This is not to deny the importance of advice and assistance from external agencies, or indeed of knowledge-sharing and networking in a truly two-way process with other communities that are tackling similar problems. In this regard, one of the key problems identified by Mncwabeni and Bond (1999) in Stutterheim is that the council has generally failed to link the provision of infrastructure with opportunities for job creation, public health provision, gender equality and geographical desegregation.

The re-segregation of the town has perhaps also been exacerbated by other national, and externally determined, policies. The privatisation of water provision, for example, has resulted in a large foreign firm “cherry-picking” the lucrative white and coloured areas, while leaving many other areas un-connected (Mncwabeni and Bond, 1999). This can only serve to divide people, and while privatisation policies may be beyond the control of individual communities, we suggest in the next Section that this is an area where careful

national policy can broaden the decision-making base and afford community actors greater input in addressing such problems. Indeed, had the community been able to maintain the broad participation that was initially present, it is possible that other project-related problems would have been tackled with greater success over the medium term.

III.ii Community Involvement in Decision-Making: Nicaragua

Despite the problems inherent in the Stutterheim case, the initial, qualified successes suggest that even in a locality with large-scale tensions, communities can come together to plan and instigate their own development strategies. In Nicaragua, there is perhaps a deeper history of community cohesion and involvement in decision-making processes, dating from the Sandinista era of the 1980s. Walker (1997, p. 10) notes that “one of the most striking features of these years was an explosion in grass-roots organisational activity”, with roughly half of the country’s population aged 16 or over involved in such organisations by late 1984. This, it is argued, stemmed from the belief in “true participatory democracy” held by some Sandinista leaders, who “allowed (grass-roots organisations) significant autonomy, channelled resources through them to the people, and gave them formal representation in governmental decision-making bodies and on the Council of State” (p. 10). While these organisations suffered a serious decline towards the end of the 1980s, the history of such participation exists, and there are signs that community involvement in decision-making may be re-kindled.

Rocha (1999), for example, comments on a project that is developing in the city of Ocotol, in northern Nicaragua. At the end of 1997 the municipality embarked on a process of strategic planning for sustainable development that included the participation

of Ocotál's citizens, initially in round-table discussions on the economy, the environment, tourism as an employment generator, social and urban planning, and social factors (Rocha, 1999, p. 1). This process was cruelly interrupted by the advent of Hurricane Mitch, but it is argued that during the emergency "people working in their neighbourhoods out of a sense of solidarity, and with an ability to organize and make viable proposals, played a vital role" (Rocha, 1999, p. 3). Moreover, as the immediate crisis has dissipated the subject of 'development' has gradually been re-introduced into the agenda at a community level. This can be seen in the re-building phase, for example, which has taken pains to involve the community in planning, right down to participation with architects in the design of houses (*Ibid.*).

We see the local element of a dual strategy as essentially concerned with stimulating such forms of participatory democracy, and, in particular, as facilitating the beginnings of a learning process in which localities discover how to infuse the future development of their societies with democracy. It is acknowledged that many important decisions will continue to be taken externally, and that there will be contradictions between elements of externally-determined policy and what is in the best interests of specific communities. The challenge, however, is to ensure that it is possible to re-dress the balance of decision-making, at least to some extent, in favour of those for whom the decisions have greatest consequence. Success stories, such as was briefly the case in Stutterheim, and may yet be in Ocotál, can then serve as examples of what can be achieved within localities that seek to democratically govern their own development. The key, however, is not to copy one or another successful model, but to maintain fundamental concern with the decision-making process, and with embedding principles of governance, communication and learning as an

integral part of development. In the next Section we consider how privatisation (or sectoral reform), a pillar of the Washington consensus approach to development, might provide a national policy opportunity to embed such principles in an economy.

IV. THE NATIONAL ELEMENT

IV.i Context: Rationale for Privatisation

The process of privatisation or, more generally, the economic reform of particular sectors, provides an example of how appropriate national policy can facilitate a dual strategy. Economic reform is a fundamental issue for ‘less developed’ countries, largely because the influential international institutions see it as a requirement for participation in a (certain sort of) globalised economy. Indeed, currently there is strong consensus that governments, particularly in the less developed world, are ill-suited to organising production, even in traditional natural monopoly or public utility industries such as electricity, water and transport. This view has its roots in British experiences with privatisation,³ and is related to the more general drive towards an integrated capitalist system organised around transnational capital. There is undoubtedly, therefore, a strong ideological pressure to privatise, re-enforced in the case of ‘less developed’ countries by the requirements of the structural adjustment programmes of the IMF (Phillips, 1980; Taylor, 1997). In many cases, this pressure leaves very little room for manoeuvre for less developed country governments in undertaking such reform (Michie and Padayachee, 1998; Nochteff and Abeles, 2000).

³ For an overview of the privatisation process in the UK and a discussion of its wider impact, see Clarke (1993) and Martin and Parker (1997).

The rationale for reform provided by such external pressure is enhanced by considerable practical and financial concerns that are perceived from privatisation. Many less developed countries have public industries that urgently need investment. It was estimated in the late 1990s, for example, that US\$25 billion was required by the Mexican electricity sector in the next six years to modernise the system and guarantee supply (Ministry of Energy, 1999).⁴ Yet governments' spending abilities are severely limited and their priorities tend to be elsewhere; perhaps spending in other key areas such as education and healthcare, or servicing government debt. Private investment, through encouraging private ownership, is frequently supposed as a desirable solution to this investment gap.⁵ Moreover, it is also often thought that the use of markets, and therefore privatisation, has the potential to bring operating efficiency gains. For a government, this offers the potential for longer-term reductions in subsidies for strategic services. Again using Mexico as an illustration, that potential may be significant; general subsidies for electricity tariffs were around US\$3.1 billion in 1998 (Ministry of Energy, 1999).

While the rationale for reform is clear, there is a danger that, in being swept along by this tide, insufficient attention is given to key concerns around privatisation. For example, the commonly held perception that transfer to private ownership is automatically associated with efficiency gains has been challenged in a growing literature. In a review of early evidence, Kay and Thompson (1986, p. 23) argue: "it does not seem that there is anything intrinsically superior about performance under private ownership". Similarly, Parker and Willner (2000, p. 4) conclude that several studies have reported "no statistically

⁴ More recent concerns over the urgent need for investment are reflected in 'México Dependerá más del Capital Privado por la Limitación del Presupuesto', *La Jornada*, May 14th 2001.

significant differences” between the two forms of ownership, and Parker and Saal (2001, p. 62) cite a number of studies which suggest that “performance improvement is by no means guaranteed and that efficiency may be related to product market competition rather than ownership *per se*.” See also Branston (2000), indicating that electricity privatisation in Britain has resulted in prices that are significantly higher than those that otherwise would have been charged. Such findings suggest that any policy of privatisation should be considered in a broader sense than change of ownership. Indeed, much of the literature around privatisation is concerned with detailed analysis of market structure, competition policy and regulation.⁶

The key argument, we suggest, is not one for or against private ownership. Rather, it is that national governments should be aware of the various issues surrounding privatisation. There are dangers inherent in rushing into a certain approach, dangers that are exacerbated by the fact that the sectors in question are usually strategically key sectors such as electricity, water supply or transport. Moreover, the very strategic nature of such sectors implies that there are also great opportunities from reform. In particular, we argue that economic reform presents an occasion for reorganisation that can potentially enhance the ability of different local actors to become involved in decision-making regarding their development. Thus while privatisation may appear unconditionally attractive in many ways, it is a step that should be afforded great care if its opportunities are to be seized and their positive impacts maximised.

⁵ This is also an issue in developed countries. Witness the debate about ‘private finance initiatives’ as a way of raising investment capital in the UK for health, education, rail networks, etc; see articles in *The Observer*, 6th October 2002 and *The Independent*, 7th October 2002.

IV.ii Opportunities Presented by Privatisation

To illustrate further, consider the reform of a key sector in every economy, electricity. The electricity sector is especially critical because of the role it plays in the overall development of the economy. Provision of electricity is fundamentally linked to development aspirations, for a country as a whole as well as for its individual communities and localities. A commonly used development indicator, for example, is the number of households that have access to electricity, and therefore to welfare enhancing goods such as electric lights, radios and refrigerators. There are also vital links between the provision of reliable and appropriately priced electricity and the progress of industry, in turn a source of employment, wealth and other benefits. In Mexico, for example, the Ministry of Energy (1999, p.4, emphasis added) has argued that “the indicators of quality and reliability of service [for electricity], especially in the centre of the country, are *below those required for proper development.*”

The strategic importance of sectors such as electricity and water is indeed widely recognised; a feature that is reflected in careful debates around their privatisation in many countries. In Mexico, for instance, recognition of the strategic centrality of electricity for the development of the economy arguably lies behind the fact that discussions regarding potential reform of the sector are still ongoing today, several years after they were initiated. Indeed, the importance attached to reform of key sectors makes perfect sense given that ‘development’ is typically framed in terms of performance measured by a specific set of indicators (for health, education, income, access to water, electricity etc.). Great care should be taken, as reform is likely to directly and indirectly influence many of

⁶ For a reflection of some of this large literature, see Vickers and Yarrow (1988), Armstrong *et al.* (1994) and the volume edited by Bishop *et al.* (1994).

the indicators considered relevant. In this narrow sense, therefore, privatisation can be seen as an opportunity to impact positively on many of the indicators that are seen to underlie ‘development’.

However, our argument takes the significance of such sectors further. As we suggested in Chapter One, ‘development indicators’ are frequently determined externally, and as such may fail to reflect the aims of those that are seeking to develop. We developed an alternative perspective on development that instead *begins* with the premise that all people in an economy need to have strategic input into the determination of their own development paths. Accurate reflection of the desires of all people requires democracy in development, implying widespread participation in the formulation of economic (and associated political, social and cultural) strategy. Specifically, with regards to economic reform, adopting this perspective adds a fundamentally different importance to key sectors such as electricity and water for the development of economies.

There are two tiers to the argument. Firstly, our perspective implies that for these key sectors to develop in a way that meets the aims of the communities that they serve, there must be participation in strategic decisions from the many different interest groups and constituencies that are effected by their actions. Indeed, it is clear that there is likely to be a large variation in interests. Access will be an issue for some, as in many developing countries not all of the population can obtain electricity, water or access to other key services. Rural areas and townships on the edges of cities, for example, are often not connected to supply networks. Potential users in these areas will have a separate and distinct interest from existing users in areas that are connected. The latter might prefer a

strategic decision to make the current system cheap and reliable, whilst potential users might prefer that resources are employed to expand the network so that they can enter. There will be similar variation in interests over aspects of pricing strategy. Many 'less developed' countries subsidise services such as electricity that are under public control; in Mexico in 1998, for example, the total subsidy was US\$3.1 billion (Ministry of Energy, 1999). Under these circumstances it is highly likely that reform will bring with it pricing revisions, something that is in line with much international experience; see Clarke (1993) on Britain, for example, or Rivera (1996) on pricing revisions following privatisations in the water industry. Again, however, separate groups would view revisions in distinct ways. While industrial consumers might favour low tariffs for high users, for example, domestic consumers might prefer discounts for the smaller user, as might small or micro firms. Moreover, the owners of the electricity industry would no doubt prefer to be free to set profit maximising prices from the outset. Such aims might also be misaligned with those of the government, or with poorer communities, who might prefer pricing strategies geared towards facilitating access to low-price electricity for low-income households, for example.⁷

Providing all groups with a democratic voice in the production process might enable fundamental, strategic choices to be made in a way that responds to the aims of all those with an interest. The alternative would be a choice based on the narrower interests of an exclusive group. The consequences of the latter might include, for example, the exclusion or marginalisation of isolated communities where service provision is seen as unprofitable or unduly risky; we discussed earlier the wider potential consequences of

⁷ Further examples could easily be given by focusing on the interests of employees, environmentalists, and domestic fuel producers, as well as other (actual and potential) suppliers to the industry.

such circumstances for community divisions and therefore development planning in the case of Stutterheim. At one level, therefore, our argument is that where reform is required of key sectors, it should take the opportunity to embed a structure and processes that recognise and accommodate the variations in interest, and that ensure that exclusive concerns do not dominate. Above all, reform can maximise its impact on development, as seen from our perspective, if it recognises and responds to the need for democratic involvement in decision-making. It is in this sense, not explicitly recognised in the majority of debates around privatisation, that we see real opportunities from economic reform.

The second tier to our argument has wider-reaching implications. Because of their very centrality in the lives of people, we suggest that key sectors such as electricity can be seen as crucial in terms of facilitating and embedding principles of inclusion and participation in decision-making more generally. Indeed, if development rests on successfully incorporating people's aims and objectives, then democracy in all areas of economic life is central to development. Economic reform that can encourage an inclusive approach in key sectors would allow the evolution of institutions and organisations within those sectors to be brought more into line with the development aspirations of the people that are affected by their activities. This might enable the beginnings of a more deep-seated change in attitudes to engagement and co-operation that might grow to permeate other arenas in economic life, leading to more democratic development.

How this long-run process might be set in motion of course raises a number of more case-specific practical issues concerning, for example, appropriate industry structure and

governance mechanisms. In this regard, Branston *et al.* (2001) pursue in detail the specific case of Mexican electricity reform. They explore possibilities for a privatisation model that creates an ownership and control structure with the potential to balance the interests of investors and citizens. Their model incorporates the involvement of pension funds, linking investment back to the individuals and groups with interests wider than those traditionally associated with investors, alongside a more direct incorporation of citizens interests through a formal right to participate in strategic decision-making. Around their suggested structure, they identify various governance mechanisms that, with further refinement and positioning in the context of particular cases, might allow effective participation to be realised.

Without expanding further on the more practical elements here, the thrust of our argument is that, while it is difficult to ignore the Washington consensus approach to development policy, there is much that governments can do to ensure that the form of the policies that are implemented do as much as possible to contribute to the democratisation of the economy. In this sense, privatisation provides a concrete example of what we mean by a dual strategy. There can be a tendency when discussing markets and market systems to assume that their forms are given and inflexible. Because privatisation is often seen as a prerequisite for a market economy, a corollary is that privatisation must imply a fixed outcome. That view is wrong: the requirement to privatise also leaves open an opportunity to create more democratic decision-making structures that can serve the development of an economy based upon the aims of its people.

In this regard, the much-lauded British privatisation process has been described as a “catalogue of missed opportunities” (Cowling and Sugden, 1993, p. 56), a label which might also be applied to Eastern European experiences in the rush to re-organise their economies.⁸ Carefully designed privatisation programmes that ensure a broad and representative decision-making base have the potential to redress some of the decision-making balance in favour of localities and initiate a learning process of participation in decision-making. At the same time, however, they are capable of adhering to the ideological necessity of transferring ownership to private actors. They might, therefore, form a cornerstone of a dual approach to development, taking advantage of the required reform of key sectors to realise a unique opportunity to infuse economic governance with democratic principles that require learning and evolution over time.

V. CONCLUSIONS

In this chapter we have built on the analysis of the previous two chapters in suggesting a way forward from what was suggested is currently a ‘crisis in development’. Specifically, we have argued that recent signs of change from the Washington institutions do not go far enough in addressing the balance of decision-making, and that it is unlikely that the impetus for any fundamental change will come from these quarters in the near future. In response to this, we have proposed a ‘dual approach’ to development, whereby countries and localities continue to follow the broad rules of the international system in which they operate, and in which the Washington institutions and transnational corporations play a central role. However, at the same time they seek to encourage national and local policies aimed at empowering communities to determine their own

⁸ For an alternative perspective on privatisation in Central and Eastern Europe, see Cowling (1995).

‘development’ paths in the shadow of the consensus; to quietly build strategy in line with their own aims and objectives.

We have explored, with examples, potential local and national elements to such policies, while recognising that these are at times likely be undermined by conflicts of interest, ideology and practice. Indeed, crucially, the dual approach is seen as the first step in a learning process of democratic engagement. The challenge is to progressively and democratically re-dress the decision-making balance in favour of those within each locality. These are the people for whom decisions on the development of that locality matter the most, and it is from learning to be democratic in this way that we might address the inevitability of uneven development that Hymer (1972) so accurately predicted.

In later Chapters we will be taking up aspects of this approach in greater detail, thereby further exploring and analysing its requirements and implications. Before that, however, Chapter Four completes Part One of the thesis by advancing some of the ideas presented in the first three Chapters in the context of what is frequently termed ‘globalisation’. It examines in more detail what we mean by a learning approach and by the notion of locality, and it explores how our theoretical approach to development can guide how we think about globalisation.

CHAPTER FOUR

ELITE VERSUS DEMOCRATIC GLOBALISATION

I. INTRODUCTION

In Chapter Three we developed a potential way forward from what is perceived to be a ‘crisis in development’, suggesting a ‘dual approach’ to policy and practice at local and national levels. This approach is seen as inherently a learning process, and is rooted theoretically in the strategic decision-making perspective that was explored in the first two Chapters. There is an implicit recognition, however, that a dual approach to development must operate within the context of a global economy, from which countries and localities cannot easily isolate themselves. Indeed, we have argued that localities *should not* seek to pursue their development aims in isolation, and in this Chapter we explicitly focus our analysis on implications from and for so-called ‘globalisation’. Specifically, we explore how our approach to development might contribute to an understanding of this much contested theme, while simultaneously developing further what we mean by a ‘learning approach’ and by the notion of ‘locality’.

In Section II we discuss what is meant by the term ‘globalisation’. We offer a conceptualisation that incorporates the ‘new’ economy and that captures three widely recognised features: globalisation’s cross disciplinary character, its roots in a changing geography and its association with alterations in transport, information and communication technologies in a capitalist context. Building on this broad approach, and

rooted in the earlier Chapters, in Section III we suggest that an analysis of the implications of globalisation for economic development needs to stress additional factors; specifically knowledge, learning and governance. This leads to an analytical distinction between what we term *democratic globalisation* and *elite globalisation*. Section IV pursues the notion of ‘locality’ in some detail, outlining a fluid approach that considers different layers of locality and accommodates the different communities that might exist within and across layers. Within this conceptualisation there is a focus on ‘networking’ possibilities within and across localities, including ‘multilocal’ networks. We identify the ultimate challenge as moving towards a globalisation in which all actors in each locality, and in the communities within and across localities, participate in the democratic governance of their economic development. Section V draws conclusions from the Chapter, and, briefly, from Part One of the thesis.

II. TOWARDS A BROAD CONCEPT OF GLOBALISATION

II.i A Multi-faceted and Contested Phenomenon

There is currently a popular view that the world economy is undergoing profound changes in the relationships through which it is organised. Specifically, and for some considerable time now, ‘globalisation’ has become a fashionable topic. Indeed, it is currently difficult to read newspapers, watch television documentaries or study academic articles without frequently encountering some reference to the concept, and it is clear that the framework of analysis in many spheres is becoming heavily influenced by so-called globalisation. The broad subject of ‘economy and globalisation’, for example, has recently spawned a large and growing literature, much of which, such as key works by Friedman (2000) and Stiglitz (2002), has been embraced by the mainstream, and can be

found in bestseller lists the world over.¹ The perceived importance of this area essentially stems from acknowledgement that past, present and future globalisation processes undeniably have strong implications for how problems of economic development are analysed. Moreover, there is conflict and controversy around exactly what these might be; globalisation is a highly contested concept.

The popularity of ‘globalisation’ as a concept brings with it the danger that, in increased use, there is a failure to articulate exactly what is meant by the term and by the changes to which it refers. Indeed, we suggest that typically the concept is used very loosely, and hence is fairly vacuous; its use is devoid of analysis and rigour. Scholte (2000, p. 1), for example, notes that:

in spite of a deluge of publications on the subject, our analyses of globalisation tend to remain conceptually inexact, empirically thin, historically and culturally illiterate, normatively shallow and politically naïve. Although globalisation is widely assumed to be crucially important, we generally have scant idea what, more precisely, it entails.

Clear definitions are crucial with such a broad, potentially complex and contested phenomenon, so as to set the context and parameters for debate. Yet they are often overlooked, due to the very nature of globalisation as difficult to confine to one sphere, and thus to define precisely or to measure empirically.

Indeed, globalisation is clearly a multifaceted phenomenon, with implications that encompass not just the economic but also the social, political, cultural and geographical. Radice (2000, p. 6), for example, notes that “globalisation has been a prominent topic

¹ See also De la Dehesa (2000) and Scholte (2000) for recent, thoughtful and interesting contributions that have not broken into the mainstream in the same way.

among geographers and sociologists as well as economists and political scientists, and is studied within every paradigm, from neoclassical economics to postmodern social theory to realist international relations theory to Marxism”. In this regard Vellinga (2000) comments that it has the characteristics of a ‘theoretical umbrella’, in a similar way to dependency theory.

One approach that might provide some coherence is to follow Kudrle’s (1999) suggestion that globalisation be considered with regard to the specific intent of those using the term. Kudrle (1999) himself makes a distinction between ‘market’, ‘direct’, and ‘communications’ globalisation.² Narrowly economic definitions of globalisation, for example, tend to be frequently rooted in market analysis. De la Dehesa (2000, p. 17), for instance, defines it as “a dynamic process of growing liberty and world integration in the markets for labour, goods, services, technology and capital”. He also notes that one of the first to use the term ‘globalisation’ was Levitt (1983), who used it in the context of markets. It is likely, however, that scholars in different fields would choose to root their definitions in alternatives to the market, focusing instead on cultural, social, spatial or political factors, or indeed on non-market aspects of the economy. See, amongst others, Massey (1991), Robertson (1992), Waters (2001) and Giddens (2002) for important contributions ‘outside’ of economics as typically understood.

Waters (2001), for example, argues that *the* key figure in the formalisation and specification of the concept of ‘globalisation’ is the sociologist Robertson. For Robertson (1992, p. 8), globalisation refers “both to the compression of the world and the

intensification of consciousness of the world as a whole”, a definition that is clearly distinct from the market-centred perspective of the economist. From the geographer’s perspective the definition differs yet again, with the focus shifting to the scale and scope of territories such as cities or regions. In discussing the re-scaling of urban governance in the European Union, for example, Brenner (1999, p. 432) conceives globalisation as “a reterritorialisation of both socioeconomic and political-institutional spaces that unfolds simultaneously upon multiple, superimposed, geographical scales”.

Leaving aside for a moment the issue of definition, further debates rage around the extent, impact and consequences of globalisation, the forces and causes behind globalisation, the policies to be pursued in response to globalisation, and even the chronology of globalisation. With regard to the latter, for example, many authors question whether ‘globalisation’ is a new phenomenon. De la Dehesa (2000) notes that a similar process, of a form almost as intense as that which we see now, was evident between 1870 and 1914. Hirst and Thompson (1996, p. 2) go further and state that “in some respects, the current international economy is *less* open and integrated than the regime that prevailed from 1870 to 1914”. Such arguments clearly depend on the definition of globalisation that underpin them. If the issue is ‘market’ globalisation then these authors may have a strong case. In contrast, if the issue encompasses wider factors, then it would be difficult to deny that those commentators claiming ‘globalisation’ to be a ‘new’ phenomenon, influenced by the likes of jet travel and computers, also have credibility to their arguments. In general, and following Scholte (2000, p. 39), it is fair to say that “the only

² Other authors make different splits. Scholte (2000), for example, identifies at least five broad definitions, associated with the concepts of ‘internationalisation’, ‘liberalisation’, ‘universalisation’, ‘modernisation’, and ‘deterritorialisation’.

consensus about globalisation is that it is contested”, something that is perhaps inevitable given its truly multidisciplinary nature.

II.ii Changing Geography, New Technologies and Capitalist Context

What is clear, however, and arguably what most people consider when they think of current ‘globalisation’, is that throughout the world there is a development towards levels and forms of global interaction that are significantly *different* to previous intercourse at international level. The difference is highlighted by Scholte (2000, p. 3) in terms of the importance of relations that transcend borders. He argues that globalisation is a “new and distinctive” phenomenon only when it is conceptualised in terms of “deterritorialisation”. He suggests that “the proliferation and spread of supraterritorial – or what we can alternatively term ‘transworld’ or ‘transborder’ – connections brings an end to what could be called ‘territorialism’, that is, a situation where social geography is *entirely* territorial” (p. 46, emphasis added). His point is that “although ... territory still matters very much in our globalising world, it no longer constitutes the whole of our geography” (p. 46).

Scholte’s use of ‘trans’ as a prefix is based upon the notion of transcending territorial space.³ Unfortunately, perhaps, the prefix also has connotations of transversing, of merely crossing territories. The latter has very different implications to transcending, and connotations that might better describe what Scholte (2000, p. 53) terms the “tens of thousands of global companies”, the transnational corporations. One alternative might be

³ This is clearly a topic where semantics can intrude. For Scholte (2000, p. 49), “whereas international relations are *interterritorial* relations, global relations are *supraterritorial* relations. International relations are *cross-border* exchanges *over* distance, while global relations are *transborder* exchanges *without* distance. Thus global economics is different from international economics, global politics is different from international politics, and so on. Internationality is embedded in territorial space; globality transcends that geography”.

to explore the implications of *multiterritorial* activity, an example of which can be found in the multinationalism advocated by Sugden (1997) and Cowling and Sugden (1999). This multiterritorialism can be argued to imply ‘of many territories, rooted in and growing out of many territories’. It can hence be seen as a route to truly transcending territories, rather than merely transversing, or crossing, them.

The importance of transcending borders is also associated with recognition of recent advances in transport, information and communication technologies. These advances have markedly eased previous difficulties inherent in interaction over difficult, including large, distances. Not only have the costs (both actual and time) of long-distance transport and telecommunications fallen dramatically, but the last decade has seen the advent and evolution of email and the Internet. These new technologies herald the cheap and almost instantaneous transfer of vast amounts of information across the entire wired-up world, and create the potential (as yet only partially realised?) for a new ‘layer’ of market and non-market activities that are detached from physical localities. The Internet has already made it possible, for example, to order goods from CDs through to cars directly from suppliers in other parts of the world, creating a market that leaves behind (further than previous forms of international trade) the necessity of being fixed to a physical locality. It has also had an enormous impact in terms of reducing the constraints of borders and distance with regards research and learning activities in academia, for example.⁴

Economic activity focused around these developments is commonly termed the ‘new’ economy, although there is a degree of confusion as to what, exactly, this constitutes. For some authors the phrase ‘new economy’ is used in a relatively narrow sense, to refer

simply to technological advances. Gordon (2000, pp. 71-2), for example, defines it as “the post-1995 acceleration in the rate of technical change in information technology together with the development of the Internet”, and seeks to compare it with the great inventions that have previously transformed economies. For others, such as Reich (2001) and Atkinson and Gottlieb (2001), the new economy is a wider phenomenon, encompassing both new technologies, and the emerging global economic relationships that they help to facilitate and that in turn condition their use.

In the latter sense the new economy has roots fundamentally in the capitalist organisation of economic activity. Reich (2001, p. 1), for example, points to a society where “we can get exactly what we want from almost anywhere at the lowest price and highest value”. The foundations of such developments are seen to lie in modern capitalism, although advancements in technology combine in driving them to a ‘new’ level, primarily because it becomes increasingly easier to transfer information, and thus, it is claimed, to compare, contrast and make informed decisions. It is interesting to note here that the problems of inequality and de-fragmentation of society that Reich sees as the opposite side of the ‘new economy’ coin are also essentially an enhancement of the problems inherent in Anglo-US capitalism, and identified as central in the Marxist-influenced dependency literature. Frank (1967, p. 9), for example, argues that “economic development and underdevelopment are the opposite faces of the same coin. Both are the necessary result and contemporary manifestation of internal contradictions in the world capitalist system”. In one sense, therefore, the ‘new’ economy facilitates an extension of the patterns of capitalist development that we have seen throughout the last century; increased ease of communication and information transfer simply enable those with power greater scope to

⁴ See Sugden (2000) on the experience of *L’institute*.

exercise it on a global basis. In another sense, however, it could be argued that the ‘new’ economy has the potential to balance these powers, because it implies greater access to information for all actors, and thus an enhanced ability to hold those with power accountable.⁵

Such views on the new economy are related to the argument by Radice (2000, p. 13) that “globalisation can best be understood as an aspect of capitalism”. Scholte (2000, p. 4) similarly maintains that “globalisation has not put the structure of capitalism itself under threat. If anything, the current situation is one of hypercapitalism”. He goes on to suggest “that capitalism has been not only a primary cause, but also a chief consequence of globalisation” (p. 130), arguments related to the observation by Stallings and Peres (2000, p. 17) that globalisation can be viewed “as a microeconomic phenomenon led by the strategies and behaviour of corporations.”⁶ Indeed, our conclusion from this literature is that it is difficult and undesirable to separate either ‘globalisation’ or the ‘new’ economy from the capitalist context in which they have evolved and are evolving, and thus also difficult to separate them from one another.

III.iii A Broad Conceptualisation of ‘Globalisation’

Drawing together the ideas from the previous two sub-Sections, a useful starting point is to define globalisation broadly, capturing its cross disciplinary character, recognising its roots in a changing geography, and identifying its association with alterations in transport,

⁵ Chapter Five explores the potential opportunities and dangers that new information technologies might imply for democratic development processes, in the context of examining the interaction between communication and economic development more generally.

⁶ Massey (1991, p. 24), commenting on spatial analysis, also notes the view that “it is capitalism and its developments which are argued to determine our understanding and our experience of space”. This is balanced, however, with the suggestion that “there is a lot more determining how we experience space.”

information and communication technologies in a capitalist context. In essence, we suggest that:

globalisation is a multidisciplinary process in which a new geography and new technologies imply changes in activity and behaviour in a capitalist context

In more detail:⁷

globalisation is a process in which the constraints of geography on economic, political, social and cultural activity and behaviour change, becoming less territorialised and more trans- or multi- territorial; it is a process that stimulates and that is stimulated by alterations in transport, information and communication technologies; and it is a process in which people are more or less aware of the changes, leading to a concern with how they respond to and shape what is occurring around them

There is an important emphasis on how people respond to the processes that are occurring around them, processes that include movements towards a 'new' economy as an integral part of 'globalisation' and that, more generally, are rooted in modern capitalism. Moreover, our focus is on a *multidisciplinary* approach, as distinct from a mere *cross* or *interdisciplinary* concern. It is not simply that globalisation is relevant in various

⁷ The following borrows heavily from Waters (2001, p. 5), defining globalisation generally as "a social process in which the constraints of geography on economic, political, social and cultural arrangements recede, in which people become increasingly aware that they are receding and in which people act accordingly".

disciplines; rather it is that the process can only be fully understood from a perspective that fuses various disciplines together.

III. TOWARDS A FOCUSSED CONCEPT OF GLOBALISATION

III.i Knowledge, Learning and Governance

Whilst such a broad conceptualisation provides an initial foundation for analysis, it has a strength that is also a weakness. The definition we have provided encompasses many perspectives, but in so doing it lacks focus. This probably makes it more widely acceptable but at the same time less interesting and less useful. Indeed, the purpose of definitions is not simply to gain consensus, but to provide an appropriate analytical foundation. Thus we suggest that the broad definition of globalisation can be usefully refined; narrowed to provide a more insightful foundation for analysis.

In this respect, we follow Kudrle (1999) in advocating a conceptualisation that accommodates the concerns of those using the term. More particularly, for an analysis of the implications of globalisation for economic development we return to the theoretical foundations set out in the first three Chapters of the thesis. Specifically, we suggest that a focussed conceptualisation of globalisation needs to incorporate three key, related issues: knowledge, learning and governance.

Knowledge and learning can be seen as key drivers behind the ability to respond to the changes that are occurring with the globalisation recognised in our broad definition. This suggests that they are of fundamental concern. Indeed, it is no co-incidence that knowledge has become acknowledged in the mainstream development agenda as perhaps

the key issue at a time when the forces of ‘globalisation’ have accelerated in conjunction with new technologies.

Dunning (2000, p. 8), for example, argues that “over the last three centuries, the main source of wealth in market economies has switched from natural assets (notably land and relatively unskilled labour), through tangible assets (notably buildings, machinery and equipment, and finance) to intangible created assets (notably knowledge and information of all kinds)”. Moreover, as noted in Chapter One, concern with knowledge, learning and education has recently been recognised as central by the World Bank and by influential people within it (World Bank, 1998a; Stiglitz, 1998b). Given movement towards a ‘new’ economy, where knowledge is seen to be the key to realising returns, it has become generally and widely accepted that education, learning and the generation and diffusion of knowledge are vital and central components to development processes; see also, amongst others, Florida (1994) and Nichols (2003).⁸

From this perspective it would seem natural that a conceptualisation of globalisation focussed on its implications for economic development would contain a special concern with knowledge and learning. However, the standard premise for these arguments is essentially a market perspective. Knowledge is typically seen as important in terms of the value it can add to production processes, and crucially, therefore, the ability to attract investment, in particular foreign direct investment (FDI). Indeed, a primary concern from this perspective is with bridging knowledge gaps so that localities can ‘compete’ on a more equal footing, or extending knowledge gaps so that localities can enhance their

‘competitive advantage’. In a sense, therefore, the typical argument is very similar to that for flexible labour markets; like flexible (cheap) labour, knowledge is seen as a route to competitive advantage. Moreover, just as flexible labour markets have become more attractive as transport technologies have allowed goods to be produced far from where they are consumed, knowledge as a route to competitive advantage has become increasingly attractive in a ‘new’ economy dominated by information flows.

While we recognise the so-called competitive imperative for knowledge in a ‘new’ and ‘global’ economy, our concern is primarily from an alternative perspective. Specifically, as argued in the first three Chapters, it is from a perspective that views governance as critical. Within this, knowledge and learning are seen as central to each individual (and the communities that they form) realising their development potential. Specifically, we suggest that they are important because they afford people the opportunity to engage effectively in the decision-making processes that govern development.⁹ In turn, this potentially enables development to reflect accurately the aims and objectives of localities, an issue of paramount importance to the meaning of development itself.

Hence knowledge, learning and governance can be seen as inter-related concepts in our framework, the especial significance of knowledge and learning being that they are vital for the democratisation of decision-making. In particular, they have the potential to enable people to participate fully in the democratic governance of their locality; to

⁸ The recent concern with knowledge in development is also mirrored in other fields. For example, knowledge creation and knowledge management are currently fashionable topics in the areas of organisational behaviour and management (Inkpen, 1998).

⁹ This bears some relation to Stiglitz’s (1998a, p. 31) idea that “education – especially education that emphasizes critical, scientific thinking – can also help train citizens to participate more effectively and more intelligently in public decisions”.

become involved in the formal and informal, interrelated networks that govern firms, institutions, government and other economic actors. Moreover, where effective governance networks and/or mechanisms do not exist, knowledge and learning might help to free people to ensure that they become established and evolve towards effectiveness, depending on the context in which knowledge is created and used.¹⁰

In this sense, we view knowledge and learning as essentially *active* and *dynamic*. The crucial issue is not one of knowledge of ‘facts’, rather it is far deeper. To illustrate, consider Fromm’s (1941, p. 247) criticisms of educational methods that “discourage original thinking”:

The pathetic superstition prevails that by knowing more and more facts one arrives at knowledge of reality. Hundreds of scattered and unrelated facts are dumped into the heads of students; their time and energy are taken up by learning more and more facts so that there is little left for thinking. To be sure, thinking without a knowledge of facts remains empty and fictitious; but ‘information’ alone can be just as much of an obstacle to thinking as the lack of it.

Similarly, good governance necessitates that each interested person be able to think about and therefore participate fully in the governance process. Each must be active, alert to the necessity for certain types of knowledge, able to use their voice in the pursuit of that knowledge, and able to use that knowledge in influencing strategic ways forward (Branston *et al.*, 2003).

Moreover, while information and education might give people the basic ability and confidence to participate actively in the governance of their development, participation

¹⁰ For an analysis of some of the contextual issues surrounding the generation of new technological knowledge, for example, see Antonelli (2000).

itself is a learning process that generates further knowledge. Dewey (1916, p. 7), for example, makes the point that “any social arrangement that remains vitally social, or vitally shared, is educative to those who participate in it”. In particular, participation generates knowledge around practical issues of governance; it allows localities to establish what works for them, and what does not. In turn, localities learn more about economic democracy, which may enable improvements in governance that further increase the benefits and incentives for participation. The idea, then, is of a virtuous circle where localities are feeling their way forward; evolving towards ways in which they can govern themselves to ensure attainment of *their own* development aims and objectives.

This is in line with observations made by Dewey (1916) and Hirschman (1971). From different perspectives, both suggest that communication is in essence an art. Hirschman (1971, p. 43), for example, does so in the context of comparing ‘exit’ and ‘voice’: “while exit requires nothing but a clearcut either-or decision, voice is essentially an *art* evolving in new directions”. He goes on to reason that this presents an inherent bias towards exit that tends to “atrophy the development of the art of voice” (p. 47, emphasis removed). Indeed, a similar contention could be made with regard to participation in the governance of localities; development of the virtuous circle might be hindered by the difficulties and frustrations of ensuring democratic involvement.

Such arguments are also related to Fromm’s (1941) view that freedom can be accompanied by uncertainties and fears that lead people to seek an escape.¹¹ In ‘free market’ economies, Fromm contends that people can react to having ‘freedom from

constraints' without having 'freedom to do' by turning their backs on freedom, accepting conformity and the decisions of others. Such a phenomenon might explain, for example, the downward trend in voter turnout in Western economies over recent decades. In perhaps the most 'free-market' of economies, the United States, turnout in presidential elections has been declining since 1960, reaching just 49 percent in 1996, although rising slightly in 2000. The recent general election in the UK also saw the lowest turnout since 1918, prompting one commentator to declare that "disengagement from politics is one of the ineluctable trends of modern life" (Leader Article, *The Financial Times*, 9th June 2001). As Branston *et al* (2003) suggest, it might be argued that freedom from governance by others without having the freedom to govern oneself, runs the risk of people seeking to escape from governance altogether.

A full understanding of the art of democracy as central to economic development, and of escape from governance as threatening the attainment of that development, both require truly multi-disciplinary analysis. From the perspective developed here, however, the challenge is clear: it is to set a virtuous circle in motion, so that an active and dynamic concept of knowledge can be realised. Knowledge that contributes to (and in turn is generated by) involvement in governance is crucial to the way in which people respond to and are able to shape 'globalisation'. In the language of Chapter Two, such knowledge is crucial to people's input into the strategic decisions that influence the form of globalisation, and therefore of development. Consequently, such knowledge and learning essentially determine whether 'globalisation' can be harnessed to further the prosperity of a locality, as defined by the locality itself, or whether it is geared solely towards serving 'elite' or 'distant' interests. In this sense, we are not suggesting that concern with

¹¹ See also Reich (2001) on the uncertainties that people face in the 'new' economy.

knowledge, learning and governance are ‘newly important’ in the context of globalisation. Rather we see them as cornerstones of development that command fresh emphasis in the debates surrounding what is currently termed globalisation.

III.ii A Focussed Conceptualisation: Elite versus Democratic ‘Globalisation’

The above analysis leads us to suggest a more focused definition of ‘globalisation’, reflecting these key issues. In particular, the weight attached to knowledge, learning and governance of the active and dynamic form outlined above is strongly related to the stress in our broad definition on *changes* as a result of new technologies and new geography. The analysis of the previous Chapters has highlighted the fundamental importance of strategic decision-making, both in the terms of the firm and in the context of economic development more generally. Given that globalisation is essentially concerned with change, we suggest that the governance of strategic decisions that influence such change, and that are made in response to such change, form a crucial part of the conceptualisation of globalisation for purposes of analysing economic development. Accordingly, we propose the following:

Globalisation is a process with multi-disciplinary characteristics, one in which new technologies and a new geography imply the possibility of strategic decisions that result in changes to economic behaviour and activity within a capitalist context, therefore in alterations to the prospects for and forms of economic development.

Our argument is not that strategic decision-making is uniquely important because of globalisation, although new geography and new technologies do impact on governance

forms and options. Rather, similarly to the way in which globalisation as a concept and a process needs to be grounded in an understanding of the capitalist organisation of economic activity, so too must globalisation be rooted in the significance of strategic choice, an issue that requires special attention if there is to be a meaningful increase in the global economy's benefits to poor and underdeveloped areas, and to poor and unfulfilled people in nations throughout the world. Moreover, the adoption of a conceptualisation focussed on strategic choice points to a distinction between two types of 'globalisation':

elite globalisation, a process harnessed to further the prosperity of an elite

and

democratic globalisation, a process harnessed to further the prosperity of all people in a locality.

To illustrate what we mean by this, the choice between what we label 'elite' and 'democratic' globalisation appears particularly relevant in the context of recent international events centred on and subsequent to the terrorist attacks in New York and Washington D.C. One reading of certain aspects of these events is that they signal a deep misunderstanding between the predominantly Western forces of globalisation, which may be seen as 'elite', and the plight of alternative cultures and values, and in general those without (or who feel without) sufficient 'voice' or 'influence' to shape current 'globalisation'. A route to overcoming this misunderstanding may be to embrace a form of globalisation that is 'democratic',

inherently rooted in many different cultures and values, and concerned with the prosperity (material, cultural, social) of all people, rather than a few. To begin to achieve this, we suggest that active and dynamic forms of knowledge, learning and governance, both within and across localities, are of crucial importance.

IV. GLOBALISATION AND 'LOCALITY': A NETWORK APPROACH

IV.i Disputing Territory

Underlying the discussion in Section III is the idea that globalisation can be seen to present a *new framework* for analysis of economic, social and political problems, or, at least, a framework for analysis that is *changing significantly in its nature*. Within this new analytical context, specific territories - whether these are 'towns', 'cities', 'regions', 'nations' or something different - might be argued to play an integral role. Thus far in the thesis we have purposefully used the word 'locality' when referring to some notion of territory. This is in order to distance our analysis from the distinct implications of other words that are often used to describe territories, and in this Section we aim to explore in more detail exactly what we mean by a concept of 'locality'

The issue of territory has preoccupied the globalisation literature; in line with the lack of consensus surrounding all aspects of globalisation, there is much disagreement over what exactly the role of different territories might be in a global and new economy. Debate in this area is not new. The role of nations was addressed in 1918 by Bucharin, for example. He contrasted the dual trends of nationalisation and internationalisation, arguing that the latter was built around the former (p. 26):

[T]he beginnings of the organization process that characterizes the development of industry within 'national' economic boundaries become ever more evident also against the background of world economy relations. Just as the growth of productive forces within 'national' economy, on a capitalist basis, brought about the formation of national cartels and trusts, so the growth of productive forces within world capitalism makes the formation of international agreements between the various national capitalist groups...ever more urgent

Bucharin (1918) thus appeared to see the process of internationalisation as being essentially constructed *from* nations or “national capitalist groups”. More recently, authors such as Hirst and Thompson (1996), Wade (1996), Ruigrok and van Tulder (1995) and Gordon (1988) have presented the case for what Radice (2000, p. 5) terms ‘progressive nationalism’: “they contest what they see as the predominant neoliberal ideology of globalism, which is used as a weapon by economic and political elites to defend their wealth and power”. For these authors, as with Bucharin (1918), *nations* have a key role to play in economic and social activity.

This is in contrast to what some see as the vision of a truly ‘global’ economy; a borderless world made up of fully ‘global’ companies, in which nation states have little role. Kindleberger (1969, p. 207) hinted at such a scenario, asserting that “the nation-state is just about through as an economic unit... containerization..., airbuses, and the like will not permit sovereign independence of the nation-state in economic affairs”. More recently, similar arguments have been associated with authors such as Ohmae (1995, 1990) and Reich (1992), although Radice (2000) warns that their work has often been caricatured, and they can also be related to Scholte’s (2000) view on the difference between ‘international’ and ‘global’ relationships.¹²

Despite these differences in view, a common thread in the literature is that globalisation processes are inherently associated with ‘localisation’ *of some form*.¹³ For example, Ohmae (1995) argues that while traditional ‘nation states’ have become unnatural units in a global economy, ‘region states’, based on economically functional rather than political boundaries, are the right size and scale to tap into this economy. Related to this, Storper (1997) heralds the resurgence of regional economies in a globalisation framework, stressing the key role of regional communities and firms as the basic building blocks of an increasingly connected world.

In some sense, therefore, there is a clearly acknowledged regional dimension to globalisation; a recognition that territory continues to matter, and a strong premise therefore for continuing to examine territories of some form as important units of analysis. Moreover, from our perspective the imperative is enhanced by our concern with a dynamic approach to knowledge, learning and governance. This is partly because formal channels of education and learning - such as schools, colleges and universities - are often based around territories. In addition, people communicate and learn by virtue of living in proximity to one another, including geographical proximity. Dewey (1916, p. 7), for example, notes that “not only does social life demand teaching and learning for its own permanence, but the very process of living together educates”.¹⁴ The implication is that knowledge and learning require consideration at a territorial level, contributing to the need to examine in more detail what might be an appropriate territorial unit of analysis.

¹² See footnote 3.

¹³ The co-existence of globalisation and localisation trends has often been termed ‘glocalisation’.

¹⁴ We might also consider that ‘living together’ need not be confined to geographical proximity; mental proximity is important in a ‘new’ economy and this might be achieved over large distances (see Sacchetti and Sugden, 2001).

IV.ii Towards a Concept of 'Locality'

From an economics perspective, concern with territory has centred on the location of firms, and factors determining the concentration of economic activity. In particular, the seminal article by Krugman (1991) has sparked a wave of research in 'new economic geography', which in its ability to 'model' has transported geographical analysis into the economic mainstream. Krugman (1998, p. 7) shows that this work indicates "how historical accident can shape economic geography, and how gradual changes in underlying parameters can produce discontinuous change in spatial structure".¹⁵ Related to such ideas of change, but from a much broader perspective and focussing on the definition of territories rather than the concentration of economic activity, Vellinga (2000, p. 7) argues:

[R]egions are mostly products of history...[that] cannot always be defined in a strict geographical sense. The boundaries are often not clearly delimited and may shift with changes in the development process. The formation of these regions results from the development of material interests and related social classes and power relations in a socio-spatial context. This process will often also involve the formation of communities of belief and identity.

Along with acknowledgement that regions are not *fixed* entities, there is a clear distinction made here between 'region' and 'community'. This suggests the possibility of a layered approach to the units with which we analyse development, so as to avoid rigid, fixed categorisations, and so as to incorporate different notions of 'community'. This is also in line with comments by Marshall (1919, pp. 13-14):¹⁶

If the local spirit of any place ran high: if those born in it would rather stay there than migrate to another place: if most of the capital employed in the industries of the place were accumulated from those industries, and

¹⁵ For a detailed exploration of themes in the new economic geography see also Fujita *et al.* (2001).

¹⁶ See also Bellandi (2000).

nearly all the income enjoyed in it were derived from its own resources: - if all these conditions were satisfied, then the people of such a place would be a nation within a nation in a degree sufficient to render propositions, which relate to international trade, applicable to their case from an abstract point of view.

In particular, we suggest that it is useful to refer to a concept of ‘locality’ as distinct from ‘region’ or ‘nation’, terms that often carry specific, fixed connotations, and that may not be suited to an analysis that is focussed on the centrality of knowledge, learning and governance. We define a ‘locality’ as a local geographical area characterised by certain common and evolving institutions, practices and identity, and by the relationships that these foster between actors. Such a definition gives fluidity, allowing us to consider different ‘layers’ of locality, and to accommodate the different communities that exist within and across these layers. It also accommodates the possibility of different societies within and across localities. Indeed, our definition bears some similarities with that of society found in Giddens (1982, p. 8): “A society is a cluster, or system, of *institutionalised* modes of conduct. To speak of ‘institutionalised’ forms of social conduct is to refer to modes of belief and behaviour that occur and recur ... across long spans of time and space.”

To illustrate, consider a large town or city. Whilst a geographical district within the city might be considered a specific locality, so too might the city as a whole and indeed the wider area of which the city is a part. One possibility is to think of these distinct entities as part of an inter-related whole, encompassing not one but many localities. The ‘first’ layer comprises localities defined around local shops and firms, churches, government, media and grass roots organisations. For each such locality, however, there are likely to be strong links in terms of employment, administration and social factors with other areas

in the city (defined in the same way). What happens in one locality will effect others and in this sense each cannot be isolated. In particular, some areas within a city may be focal points for a significant firm or institution - such as a university - that is important to many other parts of the city. Similarly, the centre of the city is likely to be important to other 'localities', although some argue that this is changing with the new economy.¹⁷ The idea of 'locality' can therefore be seen in terms of intertwined layers. Specific areas of a city can be 'localities', as can the city as a whole, or the geographical area encompassing nearby towns and villages that rely on the city. This is illustrated in the diagram in Appendix A, which is drawn for a city, but could equally have been drawn to represent relationships between village and town localities in a rural area.

Such an approach also allows different concepts of community to be incorporated into the analysis. Dewey (1916, p. 5), for example, defines community in terms of common aims and beliefs, and their communication:

[T]here is more than a verbal tie between the words common, community, and communication. Men live in a community in virtue of the things which they have in common; and communication is the way in which they come to possess things in common. What they must have in common in order to form a community or society are aims, beliefs, aspirations, knowledge – a common understanding – like-mindedness as the sociologists say.

¹⁷ Atkinson and Gottlieb (2001, p. 4) suggest that the new economy is leading to a decline in the importance of city centres: "the common vision of the metropolitan area as a place with one economy, located among downtown skyscrapers and inner-ring factories, no longer describes the metropolis common to America". For example, they report that 14,000 jobs were lost in downtown Milwaukee over the period 1979-1994, whereas 4,800 jobs were created in inner-ring suburbs and 82,000 in outer-ring suburbs. Similar trends can also be observed in other cities, although the reasons may be different. In South Africa, for example, the central areas of Johannesburg and (to a lesser extent) Cape Town, have seen a large-scale displacement of economic and social activity in favour of affluent suburbs such as Sandton (in Johannesburg) and Claremont (in Cape Town), which are perceived as safer and more desirable places to work and spend leisure time. However, while these shifts may be an important phenomenon in terms of the changing geography of cities, it is likely that there will remain 'centres' that are especially important from an economic and social perspective.

This can be applied to the ‘first’ layer of locality, existing around local shops and institutions. The people that occupy these localities are communities by nature of living together and communicating around and through such local institutions. A layered approach, however, also recognises that communities exist across and within these localities on work, social, religious, ethnic and other grounds. Thus there are also layered ‘communities’ intertwined with layered ‘localities’, the likelihood being that individuals are members of several different but related communities spanning different layers of locality.

The fluidity of this approach has similarities with Massey’s (1991, p. 28) interpretation of place: “what gives a place its specificity is not some long internalised history but the fact that it is constructed out of a particular constellation of social relations, meeting and weaving together at a particular locus.” It is in contrast to a more rigid analysis focused on fixed historical or administrative regions, which often do not correspond naturally to social, economic or cultural relationships. Thompson (2000, p. 44), for example, notes that in Southern Africa “‘national’ borders were drawn by Europeans, who were quite ignorant of the family and community borders that they were partitioning”. In discussing the Southern African Development Community (SADC) she goes on to argue that the “‘member states’ approach to regionalism rejects ‘separate development’ of the individual countries, which were just as falsely (and forcefully) divided as the ethnic groups within South Africa”. None of this is to deny, however, that a conceptual analysis based fluidly on ‘localities’ might be translated into administrative regions (for example, nations, provinces) for the purposes of policy implementation.

IV.iii Multi-locality Networking

Implicit in this approach to 'locality' is the concept of 'networking'. Powell (1990, p. 296) presents an in-depth analysis of networks as forms of organisation, and notes that the diverse literature on networks shares a "common focus on lateral or horizontal patterns of exchange, interdependent flows of resources, and reciprocal lines of communication." Indeed, the 'first', most 'local' layer of locality is defined around local institutions, and the relationships and communication that these facilitate between actors. Likewise, the concept of intertwined layers relies on networks of relationships between actors and communities across localities.

Relationships across localities need not be confined to localities in geographical proximity. In a 'global' and 'new' economy it might seem natural that localities, and actors within localities, could also form networks for co-operation, competition and exchange of experiences that are *multi-locational* in nature, transcending previous regional and national geographical borders; for example, Cowling and Sugden (1999) discuss the notion of 'multinational webs'. Moreover, rather than starting or ending in a fixed place, or being constrained by borders, networks of locality and community might be seen to be constantly evolving. This reflects Massey's (1991, p. 27) concern with relying on fixed definitions of place:

geographers have long been exercised by the problem of defining regions, and the question of 'definition' has almost always been reduced to the issue of drawing lines around a place ... But that kind of boundary around an area precisely distinguishes between an inside and an outside.

In seeking a democratic form of globalisation there are severe dangers inherent in a distinction between insiders and outsiders. Thus, rather, groups and/or localities might

engage in a network where they have an interest, but as the network, and their own development, evolves they might withdraw or alter the nature of their relationship, and/or establish new networks/relationships.

Such networking processes, both within and across localities, might be fostered by appropriate use of the Internet, for example. For some time there have been websites that facilitate networking among people sharing common interests, views, beliefs, *etc.*. Theoretically this has allowed the establishment of communities that span localities, although inclusion is limited to those that have access to the Internet. New ventures in the UK are demonstrating the potential for similar networking to take place in the context of geographical localities.¹⁸ A website called myvillage.com, for example, splits London into distinct ‘villages’, and provides a forum for businesses, organisations and individuals to network and share information with others in each locality. There are valid concerns here around the inclusiveness of an Internet forum and the editing of the site itself.¹⁹ However, such ventures demonstrate how greater networking within localities might be facilitated in a ‘new’ economy, and also provide scope for the type of networking across localities that we have suggested. Someone living or working in one London ‘village’, for example, could bring issues to other ‘village’ forums where there may be a related interest, thus learning from and contributing to what happens in neighbouring ‘villages’.

In one sense networks between localities in the absence of geographical proximity are already observed. The concept of ‘global’ networks of urban localities is illustrated, for example, by the growing literature on ‘world cities’ (Friedman and Wolff, 1982;

¹⁸ See ‘Drop in on the Virtual Neighbours’, *The Independent*, Jul. 2nd 2001.

¹⁹ See also Chapter Five.

Friedman, 1986; Sassen, 1991, 1994; Beaverstock *et. al.*, 2000; Taylor, 2000). Fundamental to the world cities literature, however, is a hierarchical structure of city relationships; one of the theses comprising Friedman's (1986, p. 71, emphasis removed) seminal 'world city hypothesis' is that "key cities throughout the world are used by global capital as 'basing points' in the spatial organization and articulation of production and markets. The resulting linkages make it possible to arrange world cities into a complex spatial hierarchy". Such linkages are transnational in the sense that they transverse localities, with transnational capital and transnational corporations as the driving force. They do not, however, imply a transcending of localities in a way that is truly *multinational* or *multilocal*. In particular, the existence of a hierarchy serves to remove the democracy inherent in networking between equal partners. In addition, basing the relationships on *transnational* capital removes the fundamental rooting of networks in their constituent localities.

Indeed, a key implication of the world cities literature is that the hierarchy of cities is determined by the location of transnational capital. For Friedman (1986), 'world cities' are the "basing points" for transnational capital, implying a concentration of corporate headquarters, while for Sassen (1991, p. 324) they are seen as "centers of finance and as centers for global servicing and management", implying a key role in servicing transnational capital. Both approaches result in a hierarchy of cities in which the location of global capital is seen as paramount (see also Hymer, 1972). The links between cities in such a model are defined by flows (of information, capital and personnel) between transnational firms and institutions. Castells (1996, p. 386), for example, focuses his analysis on *flows between cities*, what he terms the 'network society':

[T]he global city is not a place, but a process. A process by which the centers of production and consumption of advanced services, and their ancillary local societies, are connected in a global network, while simultaneously downplaying the linkages with their hinterlands, on the basis of information flows.

This suggests a concept of networking between ‘world cities’ that is not fully rooted locally; it crosses above the localities comprising and surrounding cities, and is dominated by the agenda of a transnational elite. Furthermore, the desire to attract and maintain this transnational elite has implications for the way in which cities across the hierarchical spectrum, from ‘world cities’ to ‘peripheral cities’, are able to govern their own development.

The city of Birmingham (England) is an interesting example. It has undergone a substantial transformation over the last two decades, stimulating a debate over its alleged success. In particular, Henry and Passmore (1999) show concern that in its quest to become a ‘world city’, Birmingham has rejected its local roots and instead sought to create an enclave for international capital in the city centre. They argue that the flagship development projects have created “a space for the national and international business/tourist class, which is increasingly divorced from its regional and local context” (p. 61), and that “a city is being made to show and entertain investors rather than for local people to live in” (p. 62).

This is one of the dangers inherent in an approach to city development that essentially aims to attract an elite. Arguments that the wealth that this elite brings to the city will ‘trickle-down’ to benefit all of its citizens miss the point. What matters is that all citizens have the opportunity and ability to become involved in the democratic governance of

their locality, not least to define what they seek from development. In turn, this principle must be reflected in relationships with other localities, whether in geographical proximity or not, so that networking is truly *multilocal* (rather than simply *translocal* in a transversing sense).

In the case of Birmingham, Henry and Passmore (1999, p. 66) go on to suggest that future development should involve an embracing of the city's multicultural heritage, "drawing on the 'rooted globalisations' of Birmingham's people". One specific suggestion is to establish a centre for cultural hybridity, which "could overcome the prejudices which reduce participation in the present city centre and inhibit an honest engagement with our multicultural selves" (p. 64). Hubbard (2001), while re-enforcing their concerns, takes a slightly different view of the route forward. Following Castells (1996), he argues that "for Birmingham to become plugged into the global space of flows it needs to establish connections and manipulate flows" (p. 5). A "more radical policy", he suggests, "would be to establish a series of Birmingham Centres for Cultural Hybridity in Mumbai, Islamabad, Chicago, Beijing and so on" (p. 5).

Our approach suggests elements of both of these. Our fundamental emphasis on governance implies a solid rooting in localities, and therefore 'place'. However, the layered approach to 'locality' does not see 'place' as a rigid, fixed concept, but as a fluid arrangement of intertwined 'localities' and 'communities'. Thus there is also an emphasis on 'flows' between the layers, in the form of relationships that, crucially, maintain concern with governance for all constituents.

Indeed, following the analysis of Section III, it is the governance of networks, alongside appropriate knowledge and learning within networks, that are the key considerations in terms of achieving development that is recognised by all actors within each inter-linked 'locality'. In particular, we envisage the possibility of such networks facilitating decision-making that can move localities towards *their own* aims and objectives, in the context of the pressures and opportunities presented by globalisation. Within this, our concern is essentially with the governance of 'production' within and across localities. Production here is not confined to goods and services (and hence employment, and material 'development'), but also encompasses the production of knowledge, health, and general social well-being. In turn, these form part of the virtuous circle that can facilitate greater involvement in governance networks. We see the ultimate challenge as moving towards a scenario where all actors in each locality, and in the communities within and across localities, participate in the democratic governance of their collective development; thus rooting development in the inclusion of each member of each community making up the global economy.

This returns us to the distinction between 'elite' and 'democratic' globalisation. The latter implies governance networks that are neither designed to serve elites nor hijacked by elites, be these internal to a locality or external. In this sense, we suggest that appropriate governance networks require more than mere co-operation and partnership across 'stakeholders', as intimated by Atkinson and Gottlieb (2001) for example. Democratic governance in a multi-locational context is about more than this; democracy that can truly enable everyone to access and shape the globalisation process does not equate to such limited concerns. *Exactly* what is required is something that economics, or

indeed other branches of social science, are not best placed to analyse alone. By nature, it requires a multi-disciplinary approach, and this is a significant challenge facing practitioners across the social sciences.

V. CONCLUSIONS

In the first three Chapters of the thesis we developed a theoretical argument rooting the current ‘crisis’ in development in an exclusion from governance, thus suggesting a ‘dual approach’ to policy as a potential way forward. In this Chapter we have extended the analysis to explore our approach in the context of ‘globalisation’.

Much of the discussion has focused on crucial conceptualisations. ‘Globalisation’ is a commonly used word, but nearly as commonly it is a loosely used word. We suggested a broad definition based upon a multidisciplinary process, new geography and new technologies in a capitalist context. We then built from this into a more focused conceptualisation for the purpose of analysing economic development from the perspective developed in the first three Chapters. Specifically, we suggested an emphasis on knowledge, learning and governance in an active and dynamic sense. This raised the prospect of a virtuous circle; of localities evolving towards ways in which they can govern themselves, ensuring input into strategic decision-making processes, and facilitating attainment of their own development aims and objectives. If successful, this implies the possibility of *democratic* as opposed to *elite* globalisation.

We also considered in some detail the specific issue of territory, introducing a concept of ‘locality’ that avoids rigid categorisations, focusing instead on local areas characterised

by certain common institutions, practices and identity, and by the relationships that these foster between actors. A fluid, 'layered' approach to localities suggests special concern with networking within and across localities. Moreover, when combined with central concern with how networks are governed, the notion of multilocal networks is consistent with the possibility of democratic globalisation. At the moment that point is some way off. Nearly 2,500 years ago, Socrates saw himself as "a citizen, not of Athens or Greece, but of the world".²⁰ Since that time, the world has shrunk through technology. However, few people can meaningfully claim that they are citizens in the sense of participating fully in the governance of their economies and societies.

As we have argued throughout the first Part of the thesis, today's global economy is characterised by exclusion, both at the level of the world as a whole, and of particular territories and entities within that world. The challenge is to ensure democratic globalisation, a situation where all actors in all localities participate in the democratic governance of their development. Then, each and every person would be in a position to proclaim: "I am a citizen, not only of my home town and my nation, but also of the world".²¹

There are significant questions that need to be addressed in meeting this challenge. For example: how do we prevent the hijacking of decision-making by powerful elites, whether local, national or transnational?; what of the practical operation of communication channels and arenas?; what are the learning processes that enable people to engage most effectively in democratic governance?; what of the role and practicalities

²⁰ Quoted in Plutarch, *De Exilio*, v.

of *multilocal* interaction in democratic processes? In an increasingly complex and connected world, where the traditionally narrow concerns of politics, economics, sociology, geography and other such disciplines are being questioned, it seems natural that embracing these questions will imply a truly multidisciplinary approach. The question in essence is what forms should dynamic, democratic development processes take in a global economy. The answers are no doubt complex, and certainly cannot be analysed effectively through the lens of a single discipline. To move towards answers, we suggest, requires a fusing of the many areas that impact on and contribute to an understanding of economic development in a globalising world.

Thus we are currently some way from being in a position to meet this challenge. Nevertheless, in Part Two of the Thesis we aim to take forward the theoretical perspective developed in the first four Chapters by examining specific issues and cases in greater detail. The idea is not to propose a holistic and foolproof answer to the challenge of ensuring democratic development and democratic globalisation; that would not be possible. It is, however, to highlight certain issues, to deepen our understanding of them, and to point to some small steps that might lead to appropriate ways forward.

We do this by analysing four specific issues/cases: Chapter Five considers the importance of communication to processes of economic development, and highlights some issues surrounding new communication technologies; Chapter Six analyses a specific practical case that has attempted to engage academia democratically in the development of localities; Chapter Seven builds from one issue highlighted in this case to

²¹ Perhaps more accurately: “I am a citizen, not only of the localities of which I am a part, but also of the world”.

consider the role of ‘clusters’ as a model of employment generation and develop some methodological issues for their analysis; and Chapter Eight seeks to apply our general analysis to the specific case of economic development in the economy of Argentina, considering the historical context of its recent economic crisis and suggesting some steps forward.

PART TWO

TOWARDS A LEARNING APPROACH TO DEMOCRATIC

ENGAGEMENT:

FURTHER ISSUES, CASES AND APPLICATIONS

CHAPTER FIVE

COMMUNICATION AND ‘ECONOMIC DEVELOPMENT LITE’: ISSUES FOR GOVERNANCE UNDER GLOBALISATION

I. INTRODUCTION

The first Part of the thesis set out a theoretical argument which presents significant challenges; to move from exclusive development to inclusive development, from elite globalisation to democratic globalisation. In this chapter we point to the especial significance of communication to economic development, and raise some important issues which must be addressed if we are to move towards meeting these challenges. In particular, the aim is to identify problems of communication that are at the heart of modern economic development. Part of the Chapter’s novelty is that it covers very wide ground; from analysis of ‘Brit art’, to discussion of people sovereignty, to consideration of Chinese firewalls. However, its focus is actually on the contrasting possibilities of elite and democratic globalisation that were set out in Chapter Four. We suggest that achieving economic development based on democratic globalisation would require an approach to communication that serves the democratic model; communication that fits democracy in knowledge, learning and governance. On the other hand, the possibility of elite globalisation would imply a correspondingly elitist approach to communication.

As this is the first Chapter of the Second Part of the thesis, we begin in Section II with two simplified illustrations that briefly summarise the more complex arguments explored in Part One in terms of governance, knowledge and learning. At the risk of being slightly

repetitive, this is done to clarify and re-enforce, in terms of simple concrete examples, the key points arising from the preceding Chapters. Section III then moves to the central analysis of this Chapter, considering the relationships between different models of economic development and different communication processes. This is explored in particular through an analysis of art in Britain in the 1980s and 90s. Section IV develops these ideas further, identifying various barriers to the emergence of communication processes that might be conducive to inclusive development. It is argued that the pursuit of ‘free’ markets, combined with existing islands of power, can hinder free communication, problems that are illustrated using some of the popular discussion around globalisation. Section V then extends the analysis to explicitly address the potential impacts of new information and communication technologies (ICTs). We argue that there are important choices to be made if these are to realise their potential in stimulating and aiding democratic forms of globalisation. Finally, conclusions are drawn in Section VI.

II. ECONOMIC DEVELOPMENT UNDER GLOBALISATION: SIMPLE ILLUSTRATIONS

II.i Governance

Imagine that you live in a locality within a city in Argentina, the harbour area - El Puerto - of Mar del Plata, for example. What does the term ‘economic development’ mean to you? Perhaps a desire that your children have higher standards of education and/or healthcare. It might mean the opportunity to earn a higher income than at present. If you have a job, maybe you desire the creation of more jobs, or of better quality jobs, so as to alleviate poverty and social problems around you. ‘Economic development’ might also incorporate a wish to build on the traditions and cultures of your community. Perhaps

you have an attachment to certain activities and ways of doing things; for example, the history and culture of El Puerto is deeply rooted in fishing (Allen, 2001). However, while we can ‘guess’ at the meaning of economic development for you, as ‘outsiders’ we cannot hope to be totally accurate.

Even within El Puerto each person might have a slightly different view, although there are likely to be common concerns and desires. Each person is related through their direct and immediate stake in the development of their locality. More fundamentally, they are linked through their everyday relationships and communications, through the common firms and institutions that impact on their daily lives. Many will have lived through the locality’s recent history, and been brought up within its cultures and traditions. Consequently, there are likely to be common threads and a potential for the emergence of broad consensus on what is desired, albeit one that is evolving and at times contested. We suggest that the specification of development be taken from these aims and objectives, and that ‘development’ by other criteria lacks meaning for the people of El Puerto.

Now consider what development of the locality means for those who make the key decisions impacting on its future. At a national level motivations and desired outcomes may differ to those found in El Puerto. Certain policies formulated in Buenos Aires might reflect the interests of groups or individuals that are successful at lobbying. What constitutes ‘development’ for such a group might at times cut across the objectives of those in El Puerto. Allen (2001), for example, demonstrates how the nationally determined restructuring of the Argentinian fishing industry has impacted on Mar del

Plata. While the expansion of fishing rights during the 1990s no doubt constitutes ‘development’ for the Argentinian and European companies involved, Allen argues that it has brought to Mar del Plata “not only negative social and natural impacts but ... the deterioration of the city’s environment, particularly the harbour area” (p. 162).

Moreover, given the physical and cultural distance between people in El Puerto and the decision-making apparatus in Buenos Aires, the degree of transparency and accountability in such decisions is likely to be low. This is compounded by the general suspicion of “spectacular corruption” in Argentina (Pastor and Wise, 2001, p. 61). During the recent financial crisis, for example, the people of El Puerto would have had virtually no recourse to impact on or call to question the policy changes that seemed to arrive daily from Buenos Aires, but that critically affected their lives.

Similarly, some important decisions are made outside of Argentina. Many key choices are taken within international institutions such as the IMF and World Bank. The impact of strategy formed in Washington (for example) is felt in places such as El Puerto both directly, through externally directed programmes, and indirectly, through the concept of aid conditionality applied to national governments. Again, there are likely to be differences between the outcomes that constitute ‘development’ for those making decisions in Washington, and outcomes that are meaningful for the people of El Puerto. Once more, there are few, if any, channels for the people of that locality to have an influence.

Many important decisions, of course, are also taken locally. It might be expected that these are more likely to be reflective of local development objectives than those taken externally. However, here too there is a significant danger that decision-making processes become dominated by specific groups or individuals, for example groups within local government or other local institutions. Outcomes might then reflect their aims and objectives rather than those of the community more widely.

The crux of our argument in Part One of the thesis is that concentration of strategic decision-making regarding development results in the strategic failure of development. A divorce of decision from effect, and a failure to democratically govern development so that it reflects the aims of all people, implies outcomes that are inherently inefficient. This focus signals a need for people to be involved in the planning for their development, and thus in the decision-making processes affecting the societies where they live. In other words, *the governance of economic development is crucial*.

II.ii Knowledge and Learning

Linked to the importance of governance is a concern with certain forms of knowledge and learning, the foundations on which engagement in governance can be built. Again, let us illustrate with a simple example that was used, in a different context, in Chapter Three.

Ocotal is a small city in Nicaragua. It is close to the northern border with Honduras and suffers from many of the problems that characterise cities in Central America. Fifty-five percent of its population are under twenty, creating a high degree of dependency. Yet even before Hurricane Mitch hit Nicaragua in 1998, sixty percent of the economically

active population of Ocotal were unemployed (Rocha, 1999). With figures such as these it is clear that Ocotal faces significant economic and social problems. However, the way in which these problems have been approached provides an indication of the sorts of learning and knowledge that can underpin the democratic governance of development. According to Ocotal's mayor, Marta Adriana Peralta: "at the end of 1997 we began a process of strategic planning for sustainable development that includes the participation of Ocotal's citizens. We had round-table discussions on five issues: the economy, the environment, tourism as an employment generator, social and urban planning, and social factors" (cited in Rocha, 1999, p. 1).

While this process is not what is commonly thought of as learning or transferring knowledge in a formal sense, it is nevertheless a process of learning and knowledge generation. In particular, knowledge is being developed not through explicit skills and training, but through interaction and participation, through communication across interested parties. The process allows people to learn what they seek from development, and to learn what each other seeks. It also allows people to learn how to represent, reconcile and achieve those aims in a democratic fashion. Indeed, the concepts of knowledge and learning that this illustrates differ fundamentally from a more conventional concern amongst economists with tangible skills and training, and the static transfer of codified information. Rather, it is in part knowledge about how to govern democratically; a process of learning about how to form opinions and express them, and in doing so to impact on development.

Active citizenship in this way can yield significant economic benefits. This can be seen from the positive impact of such processes in Ocotlán, where the response to severe crisis was strengthened (see also Chapter Three), or from any number of similar examples. It does not require specific skills such as engineering or information technology qualifications; though it can benefit from different types of knowledge, and not only in the physical sciences but also the arts, humanities and social sciences. Within this, certain forms of static knowledge are important; information about decisions being made by firms or government is necessary if people are to develop views on and govern what happens in their societies. But vital for success is a dynamic process of learning to develop and communicate ideas, and, in so doing, learning to determine democratically the development of a locality. While learning to be democratic may sound a simple notion, it is an emphasis that is typically lost in debate and policy.

As elaborated in Chapter Four, we see knowledge and learning of this active and dynamic form as cornerstones of development. Moreover, *if knowledge and learning are fundamental in the governance process, they are accordingly fundamental to the choice between elite and democratic globalisation.*

III. COMMUNICATION AND ECONOMIC DEMOCRACY

III.i The Art of Communication and the Governance of Development

It is in the context of different possibilities for globalisation that we see communication as influencing the potential for economic development, and vice versa. The attainment of democratic globalisation requires that each interested person be able to think about and participate fully in the governance of economic development. Each person must be

active, alert to the necessity for certain types of knowledge and learning, able to use their voice in the pursuit of that knowledge and learning, and able to use that knowledge and learning in influencing strategic ways forward. This implies a need for discussion and interaction, for a conveying of information, ideas and feelings. Appropriate and effective *communication* is necessary.¹ Indeed, because the *art* of communication is central to the *art* of democracy,² it is central to an understanding of the potential for economic development, as well as to the realisation of successful development.

Information, ideas and feelings can be communicated through various means: language, speech, prose, film, poetry, music, visual art and so on. It would seem likely that democracy in economic development requires a certain kind of freedom and opportunity for all people to express themselves as they wish. The suggestion is that freedom and ability to participate fully in economic governance and in the corresponding democratic knowledge and learning processes would reflect and be reflected by a parallel freedom and ability in communication media. An important issue, therefore, is the extent to which we are currently free and able to communicate our ideas and feelings; to what extent does current communication media facilitate or hinder democratic engagement?

To take just one example, it is said that languages across the world are disappearing at a fast rate. It has been estimated that, on average, a language is lost every two weeks, and that by the end of this century 5500 of the currently 6000 languages spoken in the world

¹ The Collins English Dictionary (1986, p. 319) defines communication as “the act or an instance of communicating: the imparting or exchange of information, ideas, or feelings”.

² Dewey (1916, p. 7) argues that “all communication is like art” and Hirschman (1970) discusses the art of democracy. See also Chapter Four.

will have died out.³ This is important for communication, because of the view that people think in terms of a language, and that appreciating those thought processes is impossible without knowing the language. One implication, therefore, is that the death of languages is associated with the death of unique thought processes, and consequently lost opportunities to communicate particular ideas. The narrowing of language usage may thus be associated with a corresponding narrowing of ability for many people to engage their ideas effectively in democratic processes of development. On the other hand, however, it may be argued that such a narrowing encourages greater democratic engagement precisely because people are now more likely to be able to understand one another. In either case, we suggest that what is happening to communication processes is likely to have strong implications for the ability of communities to realise economic development that is meaningful in the sense outlined in Chapter One. We now explore the arguments around this in greater detail using the extended example of trends in artistic processes.

III.ii Artistic Processes and Economic Democracy

The possibility of a relationship between economic and communication processes is suggested by comments on Dutch artist Johannes Vermeer. It might be argued as no coincidence that in the seventeenth century Vermeer had an opportunity to express himself in his art in innovative ways at a time when the Netherlands was able to develop its economy in new directions.⁴ Comments on, for example, film releases in Summer

³ See 'Linguicide: The Death of Language', *The Independent on Sunday*, March 10th 2002.

⁴ See 'Visions of Johannes', *The Observer*, June 24th 2001: "Britain has reached an important juncture. We are impatient for real success and have broken out of the ideological categories that have boxed in our thinking. Delft and seventeenth-century Holland weren't socialist, statist or inefficient - they allowed their civilisation to express itself publicly. And they gave us Vermeer. Unless we learn the same lessons, contemporary Britain will bequeath future generations nothing."

2002 also illustrate the possibility of a link between communication and economy.⁵ Likewise, comments on art nouveau as “a style dependent on a market committed to the consumption of modern luxury goods” (Greenhalgh, 2001, p. 16).

We will focus our illustration, however, on art in Britain in the 1980s and 90s. Without suggesting that British art over this period has been ‘better’ or ‘worse’ than at other times - that is not our concern at all - we would argue that it has not provided the sort of art that is required by the type of democratic economy that we advocate. Note that this is also not to comment on whether British art in the 1980s and 90s has been in some sense closer to, or more distant from, what is required by a democratic economy, compared to other forms of art at other times.

Millard (2001) suggests that the marketing and branding of art are clear indicators of the times for “Brit art”.⁶ She argues that stars such as Damien Hirst and Tracey Emin have deliberately become brands, and reports the views of Christopher Frayling, Rector of the Royal College of Art. He observes that the 80s witnessed a sea change in approach characterised by an emphasis on marketing and “a convergence of advertising and art” (p. 53). Within this, art students were taught business skills and learnt how to market their products (p. 53):

I remembered artists in the 1970s who thought their role was to put two fingers up at the establishment and deliberately produce art which was unexhibitable. They didn't want to be marketed. But these [post 1970s

⁵ See, for example, ‘Get Set for the Rehashes and Spin-Offs’, *International Herald Tribune*, April 20th-21st 2002 and ‘Franchise Fever’, *Newsweek*, April 22nd 2002 on the influence of marketing and branding in the film industry.

⁶ “Brit art” might be seen as itself a brand. It is one of a number of labels that Stallabrass (1999, p. 2) identifies for art in 1990s Britain; “new British art”, “new art”, “New Boomers”, and “young British artists” or “yBas” are others, and his preference is for “high art lite”.

artists] were the children of Thatcher. There was an idea that they ought to be more hip to the real world. I was swamped. They wanted to know how to get on, how to charge commission, how to get an exhibition.

This approach has not been confined to the Thatcher years. More recently, for example, the Slade School of Fine Art in London appointed a former investment banker to provide artists with business and management techniques.⁷

Given that the then British Governments were stressing an explicitly free market approach to the economy, the implication is that a market-based economy corresponded to a market-based art. Whilst a casual and naïve view might be that artists can only work from and for the soul, reality might be different; in market based economies they apparently work from and for the market. If there is elite globalisation, do they serve the latter and undermine democracy? Can democratic globalisation exist alongside artists obsessed with marketing and branding? We would argue that a healthy economic democracy requires art that is questioning and stimulating, but if artists become too close to business and business techniques they will lose their independence and therefore fail to fulfil their role.

Indeed, the perverse and pervading ways that art might use business and business might use art are very clear in recent experience. Stallabrass (1999, p. 173) argues that:

[T]here was a strong radical strand in British art of the 1970s, producing work of an explicitly political kind (and such work was always, naturally enough, more dependent upon state patronage than the market); in the 1980s this persisted in some highly theoretical forms, though it was pushed to the sidelines by a buoyant private market that favoured bombastic neo-expressionist work; in the 1990s high art lite has produced

⁷ See 'Art School Turns to Former Banker to Give Their Students an Eye for Figures', *The Independent*, March 9th 2002.

a knowing synthesis of the two, combining idea and expression, theoretical niceties and visual spectacle in a neat, market-friendly and thoroughly apolitical package.

He identifies a coming together of state and private involvement; governments having brought the market into the public sector through, for example, corporate sponsorship of public exhibitions. Indeed, Wu (2002, p. 122) concludes that by the close of the 1980s art museums (in the US and Britain) “had become just another public-relations outpost for corporations”.

Stallabrass (1999) argues that corporate sponsorship has affected both the content and presentation of art: “the more exhibition-going has come to be seen as an extension of shopping, a leisure activity rather than an educational one, the more it can feature in the lifestyle magazines” (p 173). Building on this, we suggest that art as shopping rather than art as communication is in line with a free market economic process, but we question whether it is what is required for economic development based on the democratic pursuit of democratically identified aims and objectives.

In particular, a deficiency is suggested by the ways in which an elite controls market-based art. It is clear that for Stallabrass (1999, p. 182) the art market “is highly controlled, not just in terms of production, as one would expect, but also in terms of consumption”. He tells of private galleries maintaining a close-knit pool of buyers and being uninterested in selling outside that pool: “it is important for a gallery to know that they are selling to someone who is serious about collecting - that is, someone who is a consistent buyer of work in a certain price range and who can be relied upon not to dispose of the work irresponsibly” (p 182). Galleries also buy work from ‘their’ artists at

public auctions, thereby restricting supply. Regarding production, Stallabrass (1999, p. 182) argues that galleries have significant influence over “the type of work, the amount of it, the size of editions and the setting of prices”. Whilst this is not a new problem for the 1980s and 90s, he points to special difficulties. For example, one requirement is that galleries like their artists to continue to produce the same kind of work: “The idea is that if you keep plugging away at a single trick for long enough, the buyers (some of whom are a little slow) will get it, and in any case it becomes recognisable and therefore accessible through its very familiarity. By insistent repetition, the artists in effect brand their work” (p. 182). This is seen to have been less of a problem in previous generations because the nature of their art required decades to perfect their skills.

Presumably the elite control art for their own self-interest, at least in general. This is at odds with art as a catalyst for democratic thought and expression, as a means of communication and as a means of stimulating communication. Moreover, these issues go beyond Britain in the 1990s. Wu (2002), for example, details similar concerns for the US, and Stallabrass (1999) hints at widespread problems with market-based artistic processes under globalisation.

There is a further nuance to the argument. In a sense, what Stallabrass (1999) labels “high art lite” can be seen as inclusive and apparently anti-elitist; it purports to bring high art to the masses. However this is deceptive, as the masses are included only on certain terms; terms that are set by a controlling elite. This parallels the way in which free market economies might be argued to be a force for inclusion across the world, but a force that includes only on restrictive terms. Specifically, as argued in Chapters One and

Two, these terms tend to deny inclusion in strategic decisions, for example decisions about the aims and objectives of economic activity. Thus while transnational corporations may be seen as a force for economic development across the world, their real impact is dictated by the terms of a strategic decision-making elite concentrated in only a handful of the world's major cities.

Related to this, Stallabrass (1999, p. 194) sees a contradiction within the British Government of the 1990s. He suggests that it played a “dangerous game, fostering political reaction” because it pursued policies of “cultural liberalism” that promoted inclusiveness, alongside policies of “economic neoliberalism” that implied widening economic inequality. What he misses, however, is that while those economic policies might result in inequality, they are presented under the rhetoric of inclusion. Indeed, this is perhaps little different to his analysis of reality in art; government policies apparently designed to make high art inclusive but in fact driving out high art, bringing pseudo-inclusion into something different, and implying a second rate form of communication. Thus his notion of “high art lite” appears consistent with and related to a notion of ‘economic development lite’.

IV. ‘FREE’ MARKET BARRIERS TO FREE COMMUNICATION

IV.i Transnational Corporations and Communication

Further obstacles to achieving inclusive development and democratic globalisation are revealed by other ways in which the pursuit of ‘free’ markets and ‘free’ market practices, alongside existing islands of power, impact on communication and the communication

industries. Again some of the difficulties can be illustrated from the globalised art industry, although the problems extend much further.

Central actors in today's globalisation processes in practice are the transnational corporations, firms that each produce in and span various countries. When such firms dominate a communication industry, the result can be development in the interests of an elite rather than of the many. This seems to be a problem in the art world. Wu (2002), for example, comments on the ways in which US museums are behaving as transnational corporations, apparently exploiting market power and constraining effective communication. She focuses on the Boston Museum of Fine Arts and in particular on the Guggenheim Museum, essentially seeing this as "dominated by the ethos and practices" (p. 284) of transnational corporations. On the activities of the Guggenheim, for instance, Wu (2002, p. 287) reports:

[I]n addition to its Frank Lloyd Wright building in Uptown Manhattan, the Guggenheim owns a Guggenheim Museum SoHo branch in Downtown New York, the Peggy Guggenheim Collection in Venice, the Guggenheim Museum Bilbao in Spain and its latest edition, Deutsche Guggenheim Berlin in Germany. This list does not, of course, include other failed franchising attempts during the last decade.

She questions the ways in which it raises capital, its relationships with other organisations and its role in "re-branding the Basque capital" (p. 287), and concludes that (p. 292):

[G]lobalism may have its validity as a utopian ideal, but the overseas expansion of American art institutions that we have witnessed over the last few years is the antithesis of idealism; it has been an exercise in pragmatism in which cultural imperialism and multinational capitalism have joined forces to consolidate existing hegemonies.

Such hegemony is not consistent with economic development based upon the democratic governance of the people of a locality. It implies communication that is dominated or controlled by corporations from outside. The Boston Museum of Fine Arts, for example, has a branch in Japan, where “it is the American institution that has the final say on what art its Japanese clients will actually see, even if its curatorial decisions should prove to run counter to the wishes of the Japanese themselves” (Wu, 2002, p. 291). Similarly, the Guggenheim places control amongst an elite in the US.

Parallels can be drawn between the art world and many other industries that are concerned in some way with communication of ideas, feelings, knowledge, news *etc.*. Indeed transnational corporations pervade all aspects of life. They dominate, for example the print, television and radio media; there is currently considerable debate in the UK surrounding the implications of a new Communications Bill for concentration in media ownership and thus for the quality and nature of news, programming *etc.*⁸ Universities, also, increasingly resemble transnational corporations, some of the implications of which are explored by Sugden (2003). More generally, there are queries over all communication and communication industries that are controlled by elites, with knock-on effects to what is taught in schools, sold in shops, communicated in news, and therefore to the sorts of discussion and debate that most people are, or are not, opened up to.

IV.ii Some Examples from Popular Literature

These points can be illustrated from reports in Klein (2000), one of the most popular and widely read discussions disputing the alleged benefits of globalisation. In using her

discussion to illustrate an absence of democracy, we are essentially pointing to our perspective on globalisation and to its foundations as the basis for a conceptual and theoretical analysis that explains and explores the concerns of many protestors on the streets of Seattle, Genoa, and wherever the forces at the core of the so-called 'Washington consensus' meet (see Chapters One and Two). Moreover, because these conceptual and theoretical foundations also provide the basis to explain and explore the views of the 'consensus', they constitute a framework that might enable the two sides to appreciate and understand the perspectives of each other.

Klein (2000) is describing a form of what we categorise as elite globalisation. Her particular focus is the use of brands and branding by corporations that, as a consequence, allegedly exercise undesirable influences on peoples' lives. She considers their impact on schools and universities, including their influence on communication and the stimulation of communication in these contexts. This is doubly important for us because of the role we attach to knowledge and learning in development and globalisation processes.

For example, there is argued to be an impact resulting from sponsorship of various kinds. She contends that, "regardless of the intentions when the deals are inked, the fact is that campus expression is often stifled when it conflicts with the interests of a corporate sponsor" (p. 97). Examples are provided of a speaker being denied funding at Kent State University (US) because of a plan to talk negatively about Coca-Cola's activities in Nigeria, Coca-Cola having exclusive vending rights at Kent; and of an anti-smoking group being denied permission to protest at an event sponsored by Imperial Tobacco at

⁸ See, for example, 'Take Five on Ownership', *The Times*, May 2nd 2003, 'New Law, New Democratic Deficit', *The Guardian*, May 13th 2003, 'Leading Article: Lord Puttnam Strikes a Blow Against Media

York University (Canada). She also points to more subtle but nonetheless significant effects. Echoing the suggestion that art has become a shopping rather than an educational experience, Klein (p. 98) refers to the “slow encroachment of the mall mentality” in universities where large corporations spread their brands into each nook and cranny (see also Schlosser, 2002, specifically on the fast food industry). In addition, when corporations fund research, they are said systematically to taint the message and sometimes to influence the output. Evidence of the latter is given from three cases involving medical researchers able to publicly challenge their sponsors and employers, the inference being that other instances are swept under the carpet.

Klein similarly alleges inappropriate use of market power by media and other corporations outside of education. It is argued, for example, that the desire to nurture a suitable brand stifles communication because it leads to incompatible material being excluded. This is said to affect not merely what is available in shops but also what is produced to begin with. She expands by using examples of material withdrawn by retailers because it violates their ‘family image’. Wal-Mart, Kmart and other supermarket chains reject magazines and CDs because their content and covers are deemed unacceptable. Similarly, Blockbuster Video rejects films rated unsuitable for under-17 year olds. Klein also reports that many magazines show leading retailers advance copies of new issues before they are finalised for shipment, and that films get produced in different versions, one for cinemas and another for Blockbuster. Likewise, music CDs are produced in two forms by established bands, leaving new entrants with the choice of no production versus sterilised production.

Monopolies’, *The Independent*, July 3rd 2003.

Concentration of power in the hands of retailers is not argued to be the sole issue. In practice retailers, distributors and producers are often governed by the same group. Paramount Films and Blockbuster Video, for example, have common ownership, as do Disney, Miramax and ABC. This is also the case in the news and current affairs sector, where the potential consequences for communication are undoubtedly significant. Klein (2000, p. 169) argues:

[A]s multinational conglomerates build up their self-enclosed, self-promoting worlds, they create new and varied possibilities for conflict of interest and censorship. Such pressures range from pushing the magazine arm of the conglomerate to give a favourable review to a movie or sitcom produced by another arm of the conglomerate, to pushing an editor not to run a critical story that could hurt a merger in the works, to newspapers being asked to tiptoe around judicial and regulatory bodies that award television licenses and review anti-trust complaints.

Her examples are drawn from ABC dropping a story concerning Disney, from cases involving the then Time Warner/Turner group, and from Rupert Murdoch cutting news items on China. The point is not that such activity is new, rather that the concentration of activities in the conglomerate implies problems of a different dimension.

The fundamental issue is that Klein presents evidence consistent with exclusive governance in the economies of the world, and inconsistent with inclusive, democratic economies.⁹ In part this is because she is illustrating specific cases where exclusive interests appear to dominate, similarly to the examples presented in Chapter Two concerning large corporations in South Africa. But most importantly, in the cases we

⁹ Returning to our concern with art, Klein also discusses constraints on artists use of corporate logos in their material; whilst logos might be seen as part of the language by which people communicate, and indeed that is arguably an aim for their creators, if artists use logos in material that the governors of the corporations find unacceptable, they are subject to constraint using trademark, copyright and libel law.

have reiterated, it is because she is suggesting that *communication is distorted* to favour those exclusive interests.

This is a conclusion that is consistent with comments in Lee *et al.* (2001), for example, on news media, and with a small explosion of popular literature questioning the way in which news is currently reported. Pilger (2002, p. 3), for example, suggests that promoting “a world where an elite of fewer than a billion people controls 80 per cent of humanity’s wealth” are “the transnational media corporations, American and European, that own or manage the world’s principle sources of news and information.” He goes further to argue that “those with unprecedented resources to understand this, including many who teach and research in the great universities, suppress their knowledge publicly; perhaps never before has there been such a silence.”

Palast (2002) focuses on one specific aspect of this, lamenting the paucity of true investigative journalism, particularly in the US, but increasingly in Britain. He suggests that the root cause is that “investigative reports share three things: they are risky, they upset the wisdom of the established order and they are very expensive to produce” (p. 7, emphasis removed). Media companies, he argues will not rationally seek “extra costs, extra risks and the opportunity to be attacked” (p. 7),¹⁰ and a journalistic culture has evolved which ensures that news remains bland and unchallenging:

If the Rupert Murdochs of the globe are shepherds of the New World Order, they owe their success to breeding a flock of docile sheep – the editors and reporters snoozy and content with munching on, digesting, then reprinting a diet of press releases and canned stories provided by officials and corporation public relations operations (p. 7).

¹⁰ He notes that “the *Guardian* and its Sunday sister, the *Observer*, are the worlds only leading newspapers owned by a not-for-profit corporation, as is BBC television.”

Indeed, there has been much debate recently surrounding the reporting of the US-Anglo war against Iraq, and particularly the capacity of so-called 'embedded reporters' from large news corporations to provide independent coverage of events.¹¹ The scope for distortion of communication in the reporting of such important events is enormous, and highlighted by a recent contribution from Rampton and Stauber (2003). They discuss the role of 'public relations' and 'propaganda' in the build up to the war against Iraq. Particularly interesting are comments attributed to John W. Rendon, a public relations consultant "who has worked extensively on Iraq-related projects during the past decade on behalf of clients including the Pentagon and the Central Intelligence Agency" (Rampton and Stauber, 2003, p. 4):

'I am not a national security strategist or a military tactician,' Rendon said. 'I am a politician, and a person who uses communication to meet public policy or corporate policy objectives. In fact, I am an information warrior and a perception manager.' ... His description of himself as a 'perception manager' echoes the language of Pentagon planners, who define 'perception management' as 'actions to convey and (or) deny selected information and indicators to foreign audiences to influence their emotions, motives, and objective reasoning. ... In various ways, perception management combines truth projection, operations security, cover, and deception, and [psychological operations].' (Rampton and Stauber, 2003, pp. 5-6)

Again, the fundamental suggestion from these authors is that communication is being *distorted* to serve exclusive interests, something that is facilitated by the dominance in these sectors of transnational corporations. Indeed, in this sense it is clear that, despite often being packaged in a language of freedom and choice, communication is not serving the needs of democracy.

¹¹ See, for example, 'Weighing up the Risks for the Sake of Fair Reporting', *The Times*, March 24th 2003, 'The Iraq Conflict: Raw, Devastating Realities that Expose the Truth about Basra; The Propaganda War', *The Independent*, March 28th 2003, and 'Embedded Reporters Sanitised Iraq War', *The Guardian*, November 6th 2003.

IV.iii People Sovereignty rather than Consumer Sovereignty

A familiar response to this interpretation of *distorted communication* is that corporations are only providing what markets demand; it is not the exclusive interests of corporations that are over-riding, but the demands of consumers. The argument might be that although Wal-Mart is removing certain items from its shelves, it can only do so because that is what its customers want and demand. Likewise, the lack of truly independent investigative journalism reflects consumer desire for more sanitised, standardised forms of news. A flaw in this response, however, is that consumers are not sovereign in an economy where large (transnational) corporations have market power that can be wielded to manipulate and dominate their demands. Moreover, from a wider viewpoint, another flaw is that development and the well-being of people needs to be understood from the perspective of the sovereignty of people, not merely as consumers but rather in all of their dimensions. That is what underlies the approach that we are advocating. Even if Wal-Mart or Fox are responding to and respecting consumer demand, that is not sufficient for good governance of the economy.

Sunstein (2001) analyses related concerns from the perspective of constitutional law, political democracy and communication in the new economy. He contrasts consumer and political sovereignty, arguing that an appropriate political democracy requires something other than the unfettered pursuit of consumer interests. In particular and unlike consumer sovereignty, political sovereignty “does not take individual tastes as fixed or given” (p. 45). Following Branston *et al.* (2003), we would emphasise the same requirement for an economic democracy (see also Adaman and Devine (2001) on deliberative democratic processes in economic planning). The implication, to parallel Sunstein (2001), is that

good economic governance (of firms, corporations, localities, nations and so on) needs discussion and reason-giving in the public domain.

Indeed, there is no effective democracy if a decision is “not backed by justifications, and represents instead the product of force or simple majority will” (Sunstein, 2001, p. 45). This is essentially an argument against populism masquerading as democracy. Consumer sovereignty and good governance of the economy may be in tension if, for example, consumer sovereignty implies inadequate debate about, and understanding of, issues that are the subject of economic governance.

Interestingly, this can also be seen in terms of freedom, the very rhetoric with which free market economies and the encroachment of transnationals into all aspects of life are often presented; they are said to imply a freedom of choice for people, both as consumers and as workers. Sunstein (2001, p. 50), however, suggests that in fact, “freedom consists not simply in preference satisfaction but also in the chance to have preferences and beliefs formed under decent conditions – in the ability to have preferences formed after exposure to a sufficient amount of information, and also to an appropriately diverse range of options”. This differs markedly from the simple ability to be free to choose between products or between jobs. Indeed, we might argue that free market economies run the danger of implying psuedo-freedom in a similar way to that in which they might imply psuedo-inclusion.

This danger can be seen perhaps most strikingly in the way in which companies increasingly target children in their advertising, arguably preventing preference formation

under ‘decent’ conditions. Schlosser (2002, p. 43), for example, in documenting the case of the fast food industry, argues:

The growth in children’s advertising has been driven by efforts to increase not just current, but also future, consumption. Hoping that nostalgic childhood memories of a brand will lead to a lifetime of purchases, companies now plan ‘cradle to grave’ advertising strategies. ... Indeed, market research has found that children often recognise a brand logo before they can recognise their own name.

The various strategies and mediums used to pursue such advertising range from simple television advertising, to the location of ‘restaurants’ with bright play areas near schools, to cross promotions with popular films and cartoons, to sponsorship of school materials and events. That this distorts the environment in which preferences are formed seems very clear. However, despite studies which show that young children “could not comprehend the real purpose of commercials and trusted that advertising claims were true” (Schlosser, 2002, p. 46), Schlosser notes that “the Saturday-morning children’s ads that caused angry debates twenty years ago now seem almost quaint. Far from being banned, TV advertising aimed at kids is broadcast twenty-four hours a day” (p. 46).

Advertising to children is an extreme example of influencing preference formation, and it could be argued that most adults should be able to question and contrast the different messages that surround them regarding alternative choices. However, this is only the case if there is adequate space and opportunity for reasoned debate and opinion-formation. Indeed, to avoid such problems more generally, and to achieve freedom that is rooted in exposure to a diverse set of topics and opinions, Sunstein (2001, p. 197) suggests that there is a need for “institutions designed to ensure a measure of reflection

and debate - not immediate responses to whatever people at any particular moment in time, happen to say that they want”:

[T]his is not a suggestion that people should be forced to read and view materials that they abhor. But it is a claim that a democratic polity, acting through democratic organs, tries to promote freedom, not simply by respecting consumer sovereignty, but by creating a system of communication that promotes exposure to a wide range of issues and views (p. 200).

We would argue that democratic globalisation requires *people sovereignty* of a similar form. Specifically, it requires communication based on widespread exposure to diverse possibilities; stimulating and catalytic communications industries that evidence suggests are absent or at least diminishing in today’s free market economies.

A specific aspect of this requirement is the corresponding need for public space where economic citizens can interact and exchange ideas. Sunstein (2001) recognises this in the political sphere. He comments on the historical and continuing importance of ‘public spaces’ in a political democracy; in the US, for example, streets and parks have to be kept open for the public to be able to express their views, to assemble and communicate their thoughts and ideas. He also argues that this doctrine should be expanded, not least to the mass media and the Internet, where he sees promising opportunities but also risks. We would make a similar case for the economic sphere, although before becoming preoccupied with expansion it would be worth recognising misgivings about the way space can be taken over by the exclusive interests of corporations. Klein (2000, p. 156) calls this the “privatisation of public space”. She discusses the development of “branded villages” (p. 182), notably the Disney initiative in Celebration, Florida, but also interesting is the experience of malls in the US. For Klein (2000, p. 183), in becoming

“the modern town square” malls have “created a vast grey area of pseudo-public private space”. She argues that whereas traditional town squares “were and still are sites for community discussion”, speech in the malls is constrained; “peaceful protestors are routinely thrown out by mall security guards for interfering with shopping, and even picket lines are illegal inside these enclosures” (p. 183). This is not merely a political concern. It is also problematic for the requirements of inclusive economic development; democratic globalisation needs public space in which participants in the economic process can communicate freely with each other.

V. NEW COMMUNICATION TECHNOLOGIES

V.i A Positive Role for New ICTs?

Our concerns regarding the link between communication, democracy and economic development clearly have relevance for the new communication and information technologies (ICTs). In an orthodox (mainstream economics) sense, new ICTs might impact on economic development by opening the way to potentially greater efficiency, and therefore growth, among firms and institutions that are able to adopt them. However, there remains little evidence as to whether this potential has been realised; the so-called ‘information productivity paradox’. With regards to the US, for example, Gordon (2000, p. 72) argues that “the New Economy has meant little to the 88 percent of the economy outside of durable manufacturing; in that part of the economy, trend growth in multifactor productivity has actually *decelerated*, despite a massive investment boom in computers and related equipment”. We suggest, however, that new ICTs also have the potential to impact on economic development in a different way, through their influence on communication, and therefore governance.

Apparently consistent with the view that new technologies facilitate ‘democratic’ globalisation, it has been emphasised that they make low-cost information available to everyone without discrimination (Anderson *et al.*, 1995; Hauben and Hauben, 1997). It has also been argued that there is an inherent anarchism in the new communication networks that is conducive to freedom (De la Sola Pool, 1983). Indeed, three central characteristics of the Internet - cost-efficiency, flexibility and anonymity - clearly imply that it has potential for opening and widening information and communication channels. In a dynamic sense, we might therefore suggest that new ICTs have the potential to feed knowledge and learning processes by enabling exchanges of experiences within and across localities, facilitating democratic discourse over appropriate ways forward. Chapter Four, for example, explores the case of www.myvillage.com. In addition, there are optimistic predictions for the use of the Internet in the realm of government, for both active participation and for the practical matter of voting. It has been argued in particular that such use might help to reverse the current political apathy present in many (particularly ‘developed’) societies.¹²

New ICTs may therefore be seen as a new tool for communicating information, ideas and feelings and, following Sunstein (2001), for expanding public space. Here, however, we question whether they might really facilitate wider and deeper involvement in governance, and hence aid ‘democratic’ globalisation. Or on the contrary, whether their introduction might have the effect of narrowing or maintaining governance structures,

¹² With reference to the UK, Robin Cook, leader of the House of Commons, argued recently: “there has to be a connection waiting to be made between the decline in democratic participation and the explosion in new ways of communicating. There are two fields in which the Government is seeking to improve those connections between government and public which the new technologies offer - e-participation and e-voting. ... In contrast to the traditional communication of government to governed, the internet provides for a two-way flow of information and instant response. It presents opportunities for a more systematic

thus perpetuating 'elite' globalisation. We suggest that if the potential of new technologies is to be fully or even partly realised then there are important choices to be made. Questions arise in particular regarding universality of access to new technologies, filtering mechanisms, censorship and the governance of their day-to-day workings.

IV.ii Issues of Access, Filtering, Censorship and Governance

Notwithstanding experience in certain 'developing' countries - consider, for example, the widespread presence of public Internet access points (*telecabinas*) in Lima, Peru (Fernandez-Maldonado, 2001; Meijer and Te Velde, 2001), or the evolution of the Internet in Indonesia (Lim, 2001) - if the Internet is to be utilised as a powerful communication and therefore governance tool, it is first of all important to bear in mind the strong limitations presented by non-universal access. The democratic determination of development aims and objectives by implication necessitates that all interested parties be involved in decision-making. Yet the virtual network that constitutes the Internet is built on existing telecommunications infrastructure, which varies markedly in quality, and to which many people do not have access. Even where access can be cheaply or freely provided, in for example public Internet cabins, Internet use as a tool for governance requires, above all, literacy. Furthermore, for obtaining much information, literacy in a major language is required. It is essential, therefore, that new ICTs are used alongside other media and forums, and that those people without access, or without the literacy required to make use of that access in a governance context, are not excluded from democratic processes.

engagement with issues, and with each other, by politicians and public" (taken from a speech to the YouGov conference in London, excerpts printed in 'Podium', *The Independent*, 12th April 2002).

Sunstein (2001) focuses on another specific difficulty; a demand-side problem that he argues arises from users of new communications technologies being able to filter information to new degrees. His starting-point is to highlight two requirements for healthy democracy: first, the need for “unplanned” and “unanticipated encounters”, for people to “be exposed to materials that they would not have chosen in advance” (p 8); second, the necessity for “many or most citizens” to “have a range of common experiences” (p 9). Sunstein’s (2001) concern is that new technologies mean that consumers will make choices that undermine these two requirements. He points, for example, to the ways in which the Internet facilitates custom made news selections, focusing on particular pre-set topics. The popular UK news and entertainment website www.ananova.com provides an example of the type of filtering available. It is possible to set up a personal news page, selecting which news appears, as it is reported, from a range of more than 3500 subjects. In response to such possibilities, Sunstein (2001, p. 15) argues that “it is important to maintain the equivalent of ‘street corners,’ or ‘commons,’ where people are exposed to things quite involuntarily”. Indeed, while he is positive about the possibilities that the Internet offers for accessing more opinions and more topics, his view is that it is often more apparent than real in its fostering of debate, knowledge and learning. He refers to www.townhall.com, for example, seemingly a virtual street corner but one where, unlike real town halls, “only conservative views can be found” (p 16).

Thus whilst the Internet clearly offers opportunities to expand public space and to foster a deliberative economic democracy, it does not necessarily deliver such an outcome. Indeed, it is a myth that information equals knowledge (Te Velde, 1999), knowledge

equals power, and therefore methods to increase access to information automatically equalise social power and enhance democracy. Genuine democracy involves the pursuit of common ends through discussion, deliberation, and collective decision-making, not “logging onto one’s computer, receiving the latest information, and sending back an instantaneous digitised response” (Winner, 1986). This is in line with Sunstein’s (2001) view that new technologies can be used either to serve the purpose of deliberative democracy or to serve populism.

Furthermore, related to these ideas is the argument that the apparently humble communication function of the Internet has been and continues to be considerably more important than the seemingly more sophisticated functions (Winner, 1986; Nie and Erbring, 2000). One particular mailing list, for instance, seems to have played an instrumental role in the co-ordination of the student protests that contributed to the downfall of the Suharto regime in Indonesia.¹³ The Internet is also widely being used as a communication platform to orchestrate counter-hegemonic actions, such as the demonstrations in Seattle, Prague, Davos, Gothenburg and Genoa (Klein, 2000; Hertz, 2001). It is the way in which this vital communication function is used and integrated with other functions (such as the information function), we suggest, that will determine the distinction between Internet use as facilitating democratic globalisation or as merely perpetuating elite globalisation.

Explicit censorship of communication is a further key issue. The case of China, where the State authorities have actively tried to control communication content, is particularly

¹³ The particular list in question is the ‘Indonesia-L’ list (popularly known as *apakabar*, ‘how are you?’). See, for instance, Pabico (1999) on the instrumental role of the list in the overthrow of the Suharto regime.

interesting. The authorities have been more or less successful in their attempts, not least because they completely control the country's physical network. Central authorities have restricted international connectivity since the first linking of China to the global Internet, and all major Chinese networks still have to pass through servers at official international gateways, a control known as 'the great firewall'. In practice, this means that incoming and outgoing message fragments can be filtered on certain words or phrases. Despite the fact that the official firewalls are regularly being hacked (McKay, 1998), and that they are under pressure from the enormous volume of Internet traffic, constant scanning of Internet activity allows the authorities to track activists. Indeed, according to official announcements, anyone using the Internet (or any other communication medium) for "espionage activities [such as] stealing, uncovering, purchasing or disclosing State secrets" risks the death penalty, or from 10 years to life in prison (Xinhua, January 2001, cited in ICHRDD, 2001).¹⁴

The Chinese government is currently spending large sums to upgrade the 'firewall', a project that effectively involves the construction of a massive, database-driven ubiquitous architecture of surveillance. Its implementation, still in the infancy stage, is heavily dependent upon the technological expertise and investment of Western corporations, including Cisco, Motorola, Compaq, Nortel and Sun (ICHRDD, 2001). While such endeavours to control and censor information and communication will never be completely waterproof, the effect is stifling if users never know for sure whether their moves are being watched or not.

¹⁴ See the site of the Digital Freedom Network for up-to-date information on the situation in China; a list of 'Internet convicts' is at www.dfn.org.

Such direct censorship and control at societal level might stifle the potential for new ICTs to enhance democratic processes within and across certain countries. However, there are also more general concerns about the way in which technologies are adopted. In particular, there is an underlying strategic issue regarding who actually governs the Internet in a broader context, and for what aims and objectives it is being used.

Again the control exercised by large and in particular transnational corporations is of concern. Similarly to reservations about the influence of Wal-Mart, and other such corporations distorting communications in favour of exclusive interests, Klein (2000) comments on America Online (AOL). The company sets rules for users and has a Community Action Team that deletes “messages from discussion groups deemed harassing, profane, embarrassing or just ‘unwanted.’ In addition to screening messages, the team also has the right to forbid virtual sparring partners from ever trading messages again and to suspend or expel repeat offenders from the service and from access to their own email accounts” (p. 184). If there are not sufficient alternatives to using AOL because the market is imperfect, this could cause problems; similarly to the ejection of protesters from shopping malls, this is not control of debate, discussion and other communication by a democratic body.

More generally, it is also important to remember that the Internet is merely one part of the ICT sector, and that overall there is congruence between the design principles of ICT systems and systems of centralised control. Both require high degrees of formalisation and standardisation; objects that cannot be ‘informatised’ are regarded as a nuisance or even as threats to the process of modernisation (Galjaard, 1979; Frissen, 1989; 1991).

This is translated into configurations of organisational and technical design where the intelligence is put in the core of systems. For example, the structure and functioning of conventional telecommunications systems closely resembles those of corporations. Both are single large hierarchical structures with a central brain and an ever more complex underlying system. In terms of geography, the two types of systems also have much overlap, with the topology of the global telecommunications system mirroring the layered uneven power distribution of global capitalism outlined by Hymer (1972). The hub-and-spoke structure of the system is based upon a core of interconnectivity between world cities (Telegeography, 2000), and these are exactly the same cities where all major transnationals have located their headquarters.

Indeed, from a technical perspective it is difficult to separate communication from the other basic functions of computing installations (processing and storage).¹⁵ The fact that ‘the Internet’ is usually associated with radically new patterns of social and economic development is because communication is the visible side of the ICT sector. Yet ICT installations have existed for several decades, and have already had pervasive impacts on firms. What is new in the current age of transmission is that organisations have the capacity to “work as a unit in real time on a planetary scale” (Castels, 1996, p. 92). However, what is not new are the principles and structures of control.

It is instructive to consider the argument by Microsoft, for example, that with a unique ID users would benefit by no longer having to manually copy common information from one

¹⁵ It is interesting that in the US the usual reference is to ‘IT’ rather than ‘ICT’, suggesting that ‘communications’ are regarded as a less important aspect.

service to another.¹⁶ We would argue that there are disadvantages. Specifically, the strategies of the likes of Microsoft or Nortel to ‘individualise’ the Internet can be seen as *disempowering* end-users.¹⁷ Underlying ‘personal content delivery services’ are centralised systems that recognise individual subscribers when they log on, identifying names and addresses, and learning over time what content interests the subscriber (ICHRDD, 2001). From a standpoint of seeking to widen and enhance democratic process through the Internet, there is a danger, particularly for the not-so-technology-agile, that people become hooked into systems with central control.

This assimilation of digital command and control has occurred quietly. While the evolution of the allegedly recalcitrant Internet drew all of the attention, firms and governments have spent billions to incorporate the ‘anarchistic’ technology into their centralised systems. Even with modest means it is possible to build powerful centralised systems that can not only fix the degrees of freedom of the users of the network but also monitor most of their activities (Te Velde, 2000). There is consequently a real danger that new technologies are being, and will continue to be, harnessed by economic elites to further their interests, at the expense of, indeed consciously avoiding and undermining, processes of democratisation. Ample evidence suggests that the *actual* use of technology is mainly determined by the characteristics of the surrounding in which it is being introduced. In a surrounding characterised by stifled communication in the arts, for

¹⁶ See www.microsoft.com/myservices. Microsoft automatically provides Hotmail users with such a unique ID in the form of a Microsoft Passport. More recently, Microsoft has joined forces with IBM to spread the use of their proprietary technology in this area (Berlind, 2002).

¹⁷ “Imagine a network that knows who you are, where you are, and can reach you whether you’re on your mobile phone or at your desktop. Even better, imagine instead of finding your web content, it finds you. Sounds personal. Exactly” (Nortelnetworks.com, cited in ICHRDD, 2001).

example, we should perhaps be concerned with similar desires and trends to confine new communication technologies so that they serve exclusive interests.

V. CONCLUSIONS

In this Chapter we have expanded on the theoretical analysis of the first Part of the Thesis, exploring one key theme; the importance of communication for economic development. We have suggested that because the art of communication is central to the art of democracy, it is fundamental to development. In particular, it would seem likely that democracy in economic development requires a certain kind of opportunity for all people to express themselves as they wish. Freedom and the ability to participate fully in economic governance, and in the corresponding democratic knowledge and learning processes, would hence reflect and be reflected by a parallel freedom and ability in communication.

This argument has been explored through comments on art in Britain in the 1980s and 90s, where we suggested that this period of so-called “high art lite” corresponds to an age of ‘economic development lite’. In a sense, “high art lite” is apparently inclusive and anti-elitist, purporting to bring high art to the masses. However, they are included on terms that are set by a controlling interest group. This parallels the way in which ‘free’ market economies might be argued to be a force for inclusion, but a force that includes on restrictive terms that deny inclusion in strategic decisions. More generally, evidence on the influence of large transnational corporations in schools, colleges and the media industries, illustrate the potential for distortion of communication in modern ‘free’ market

economies, and suggest that there are significant barriers to the attainment of democratic globalisation.

Good economic governance requires discussion and reason-giving in the public domain, a form and structure that enables and fosters deliberation and debate, and a freedom to be exposed to diverse opinions and a wide range of issues; ideas consistent with the notion of ‘people sovereignty’ rather than merely ‘consumer sovereignty’. However, this requires a stimulating and catalytic communications industry that evidence suggests is not a central feature of present forms of free market economies. Moreover, while new ICTs have been welcomed as harbingers of a new democracy, our conclusion is that there are severe challenges to be overcome if they are to be the servants of inclusive economic development and not mastered by exclusive interests. The underlying technology of the Internet has the potential for a decentralised and anonymous communications network, relying flexibly on a relatively simple infrastructure. However, there are dangers presented by non-universality of access, filter mechanisms that might reduce deliberation and open debate, explicit censorship and control, and, most fundamentally, an overall governance of the system that is not naturally democratic.

The purpose of this Chapter within the Thesis has been to contribute to a better understanding of what might be required to move towards democratic and inclusive development processes by highlighting and analysing specific concerns and dangers surrounding communication. The next three Chapters have similar aims, and Chapter Six will consider the specific case of an ongoing process of seeking to engage academia democratically in the development of different localities.

CHAPTER SIX

ACADEMIC ENGAGEMENT IN THE DEVELOPMENT OF LOCALITIES: THE CASE OF *L'INSTITUTE* AND THE SECOND *L'INSTITUTE-MILWAUKEE WORKSHOP*

I. INTRODUCTION

This Chapter explores a practical application of the type of learning approach to engagement that we have suggested as important if economies are to move towards democratic forms of development and globalisation. It examines the case of *L'institute* (Institute for Industrial Development Policy), a research and learning venture between the Universities of Birmingham (UK), Ferrara (Italy) and Wisconsin-Milwaukee (USA). Specifically, we focus our analysis on a Workshop organised by *L'institute* in Milwaukee during July of 2001, building on a similar event organised the previous year. The Workshop was focused on the topic of *Urban and Regional Prosperity in a Globalised Economy*, and one aim was to try to engage academics democratically in the development process of South Eastern Wisconsin. Indeed, it represented a unique opportunity for around 20 scholars from Wisconsin, other US States and Europe to interact with each other, and with public officials and business people from surrounding localities. We offer a personal reflection on the *process* of the Workshop itself, and then explore the application of some of the lessons learned through engaging in that process.

In Section II we provide some context by introducing *L'institute*; we briefly describe its history, its aims, and some of the activities in which it is involved. Section III focuses on the Second *L'institute*-Milwaukee Workshop. We discuss the aims of the Workshop as initially conceived, and explore how the Workshop proceeded in reality. Section IV then addresses the lessons learned from the workshop; it considers their application both in terms of South Eastern Wisconsin and in the context of the evolution of *L'institute*'s activities in the two years since the workshop. We illustrate how the learning process undertaken by *L'institute* has led to an improved understanding of the possibilities and requirements for different types of democratic engagement in an academic context, and hopefully to a basis for improved success in ongoing activities.

II. *L'INSTITUTE*

The Institute for Industrial Development Policy, or *L'institute*, currently exists as a series of agreements between the Universities of Birmingham (UK), Ferrara (Italy) and Wisconsin-Milwaukee (USA) to engage collaboratively in research and learning activities. It was founded in 1997, originally as an agreement between the Universities of Birmingham and Ferrara, and was born from a wider network of academics within Europe that were researching the theme of industrial development policy. Indeed, the birth and development of *L'institute* has been intertwined with the evolving activities of the European Network on Industrial Policy (EUNIP).

The roots of EUNIP lie in a series of summer workshops hosted jointly by the Universities of Birmingham and Warwick in the early 1990s. Sugden (2003) provides a detailed analysis, showing that these workshops constituted the initial phase of a long run

and evolving programme, which would include the later establishment of *L'institute*.

Regarding the beginnings of the network, he notes (pp. 77-78):

[D]espite wariness within Birmingham and Warwick about co-operation between two (geographically close) universities that saw themselves as 'competitors and rivals', the initiative was designed to yield mutual benefit. The aim was to provide a small yet expanding group of scholars - drawn from across Europe and to a more limited extent from the US - with the time and the space to discuss emerging issues in public policy.

Building on the success of these initial workshops, the next phase in the evolution of the network centred on a project funded by the European Commission under the Human Capital and Mobility part of the Fourth Framework Programme. This enabled a further series of workshops and postgraduate initiatives between 1994 and 1997, involving partner universities across Europe.¹ It was during this period that EUNIP was formally created, holding its first International Conference in London in June 1997 (Sugden, 2003). Since then the Annual Conference has become a primary focus of EUNIP's networking activities. The Seventh Annual Conference was recently held in Porto, Portugal, and in addition to parallel and plenary paper sessions there was, as is customary at EUNIP conferences, time devoted to considering the future of the network, and to introducing and discussing the various research activities with which different members of the network are engaged.²

It was at around the time of the first Annual EUNIP Conference in 1997 that *L'institute* was established. The impetus behind *L'institute* stemmed from the ideas of Patrizio Bianchi at the University of Ferrara and Roger Sugden at the University of Birmingham,

¹ For further detail, and for discussion of the explicit approach to the networking undertaken during this period, see Sugden (2003).

² For information on recent and future EUNIP Annual Conferences, see www.eunip.com.

among others within EUNIP, to provide “an on-going focal point for analysis and discussion of industrial development” (Sugden, 2003, p. 79). It was believed that “by creating an organisation that sits firmly within established universities, vital roots are provided; they give networking a concrete presence, lifting it beyond short run initiatives and abstract theorising” (*Ibid.*, p. 79). *L’institute* has since grown to incorporate by formal agreement the University of Wisconsin-Milwaukee, and to involve informally many other individuals and institutions across the world in its research and learning activities.

L’institute aims to provide a focal point for pursuing research and providing learning opportunities in public policy and industrial development, a key objective being to stimulate multinational networking amongst and across scientists, business people, and the policy community. In doing this it seeks to enhance and deepen understanding around the crucial issues impacting on the development of localities, regions and nations.³ Crucially, however, *L’institute* is founded on the notion of a specific form of networking; one that implies freedom and the ability to act for all those involved in the activities with which it is associated.⁴ It seeks to be non-hierarchical and democratic in its approach to research and learning, while recognising that truly democratic engagement necessitates a long-run learning process. In this regard, participants in *L’institute* have drawn up a set of principles intended as an evolving guide for current and future engagement in learning and research activities. These are included in Appendix B, and they sum up the very essence of what *L’institute* is about.

³ See www.linstitute.org for more detail on the aims of *L’institute* and the various activities through which these aims are explored.

⁴ This is related to the discussion of multinational webs in production in Cowling and Sugden (1999); *L’institute* as stimulating a multinational web in research and learning is explored in detail in Sugden (2003).

This essence is carried forward into the various research and learning activities with which *L'institute* is associated. The *L'institute-Ferrara Graduate School in Industrial Development Policy*, for example, is an annual event which seeks to engage between 15 and 20 graduate students in a co-operative learning process together with various faculty working in the field of industrial development policy.⁵ The focus is very much on an exchange of ideas and experiences; enabling participants to pursue issues in line with their own research interests, while learning from and integrating the perspectives and experiences of others. To this end the *School* lasts for around 10 days, with participants living together during that time, and aims to provide both the social space for interaction as well as the learning environment. Indeed, the whole 'culture' and approach of the *School* is very much in line with *L'institute's* guiding principles; it is geared towards fostering engagement in democratic, multinational networking among young and established researchers, thus encouraging working relationships that will be of benefit long into the future. Moreover, it aims to engender an approach to research and learning in the field of industrial development policy that will spread, strengthening the forms of networking practiced by *L'institute*, and working towards a better understanding of their very nature.

Besides the *L'institute-Ferrara Graduate School*, there are a range of other research and learning activities with which *L'institute* is associated, and each seeks to engage participants in line with the guiding principles. These include: other graduate schools, such as the *Central American School in Industrial Development Policy* organised in partnership with Nitlapán of the University of Central America; joint degree programmes,

⁵ For more information on the *L'institute-Ferrara Graduate School* see www.linstitute.org/ferraraschool/.

such as the Birmingham-Ferrara PhD; workshops; research projects; discussion forums; and publishing activities, including an online discussion paper series, and various edited volumes. More, and up-to-date, detail on these and other activities can be found at the *L'institute* website (www.linstitute.org).

Having given a flavour of *L'institute* and its history, aims, principles and activities, we now turn to a more detailed exploration of one particular activity; the Second *L'institute-Milwaukee* Workshop. In line with the notion of a learning approach to democratic engagement, we describe the aims of the Workshop, reflect on the actual process of the Workshop, and then analyse how this learning approach can be, and has been, applied to influence future activities and enhance our understanding of academic engagement in local economic development processes.

III. THE SECOND *L'INSTITUTE-MILWAUKEE* WORKSHOP

III.i The Aims of the Workshop

The second *L'institute-Milwaukee Workshop* took place at the University of Wisconsin-Milwaukee during July 2001, and was focussed on the topic of *Urban and Regional Prosperity in a Globalised Economy*. The Workshop was two weeks long, and involved around 20 scholars from Wisconsin, other US States and Europe, together with various local public officials and business people. Contributions to the Workshop were initially requested around a series of overlapping and interrelated themes related to the issue of urban and regional prosperity under globalisation. Specifically, as a starting-point, participants were asked to consider topics from a set of questions, which are included in Appendix C. These were prepared by the organisers of the Workshop, and were

identified out of an assessment of the past, present and future for Wisconsin manufacturing in the globalised economy, drawing very heavily on Nichols (2003).

This was the *Second L'institute-Milwaukee Workshop*, the first having been held at the University of Wisconsin-Milwaukee (UWM) in July 2000, and the idea behind initiating the series of events had its origins in the Birmingham-Warwick workshops described in the previous Section. In turn, the Birmingham-Warwick workshops had themselves built on earlier experience:

Learning from previous experience with Warwick Summer Research Workshops and unlike the typical conference, schedules were not filled with paper presentations; rather, space was given for interaction on a more informal basis, and the relevance of social activity as a catalyst to productivity was explicitly emphasised (Sugden, 2003, p. 78).

A similar approach was followed in the *L'institute-Milwaukee Workshops*; an explicit aim was to emphasise the relevance of interaction amongst scholars in different contexts, not confined solely to formal sessions and presentations. Therefore both *L'institute-Milwaukee Workshops* were of significant length (two weeks), and their schedules were designed to leave a large amount of time free for different types of activities and interaction. Moreover, sessions were deliberately timetabled to finish in the early afternoon and early evening, so as to encourage debate that extended into lunch and dinner in a different, more informal environment. Participants were also accommodated at the same hotel, and were given shared office space and computer facilities so that research could be carried out, alone or with others, during the course of the two weeks. Thus the ideas emerging from interaction with colleagues could contribute to and enrich

ongoing work, and participants' current research could itself fuel discussion and interaction.

A first aim of the Second Workshop was hence to facilitate research relationships among a group of scholars with interests in related fields, extending the process initiated the previous year. In this sense the Workshop was envisaged as being part of a continuing, dynamic networking in research activity. The hope was that debate and writing initiated (and in some cases continued) during the two weeks would extend to form the basis for future work and projects among and between, though by no means exclusive to, those involved. The importance attached to different types of interaction - in particular the fusing of social and professional activity - was seen as a route to achieving this end. Moreover, it is derived from a parallel view that economic development necessitates a fusing of economic and social interests. The success of local development in the industrial districts of the 'Third Italy', for example, is arguably rooted in the way in which social and economic relationships are forged together, based on values of trust, respect and appropriate co-operation, existing alongside appropriate rivalry.⁶

Within this overall aim, importance was also attached to furthering the network of researchers and maintaining a dynamism and freshness of ideas - again parallel to similar concerns in economic development processes. In this regard the *Second L'institute-Milwaukee Workshop* invited a mixture of participants; they were drawn from its predecessor and also from scholars new to the process, and the organisers ensured that new/young researchers (including PhD students) were integrally involved.

⁶ See, for example, the volume edited by Pyke *et al.* (1990), in particular the contribution by Becattini, and the volume edited by Becattini *et al.* (2003). See also Bianchi (1993). Some of these ideas are further developed in the context of employment generation in Chapter Seven.

A second overall aim of the 2001 event differentiated it quite substantially in nature and scope from the First Workshop. Its broad topic was *Urban and Regional Prosperity in a Globalised Economy*, and within this a key objective was to address local ‘prosperity’ under ‘globalisation’ in the specific context of South Eastern Wisconsin. This did not mean that each of the papers presented by participating scholars had to be explicitly focussed on South Eastern Wisconsin. Rather, it meant that discussion around the different ideas and experiences presented would be geared towards their implications for local economies in general. These consequences could then be drawn out for South Eastern Wisconsin in particular. However, the aim extended further than this. It incorporated a fundamental concern with becoming part of the development process itself; interacting with local academics, business people and public officials in seeking to learn from each other how different ideas might be applied to South Eastern Wisconsin.

Such a concern with engagement in the *process* of development can be seen as rooted in the theoretical perspective developed in the first part of this thesis; that development is fundamentally a process of people within a locality determining, and then seeking to move towards, their own aims and objectives. It is thus inappropriate for development objectives and policy solutions to be set by people from outside of a locality, although there is clearly scope for considerable mutual gain from working together with those from other localities in a truly democratic process of co-operation (and also involving competition). Thus great care was taken to avoid a situation where a group of largely ‘external’ academics discussed, formulated and then prescribed various courses of action to be followed by a locality. The emphasis instead was on presentations of perspectives on different issues by each of the invited scholars, with reference to their own experiences

and research interests. Parallel with this, there were sessions given by business people, academics and public officials from Wisconsin. The intention was that these would provide different perspectives on specific economic development issues affecting the locality. It was envisaged that the discussion in and around both types of session – as well as in specific time allocated solely for considering the implications flowing from all sessions – could result in the development of ideas relevant to the local economy.

Thus the aim was essentially for the Workshop to provide a learning forum for local and external participants, with knowledge flowing in both directions. It sought to become a small part of the process of determining and seeking to move towards development goals; a contribution benefiting from international experience and expertise, but one that was, vitally, rooted in the aims and views of people within Wisconsin.

More specific objectives in this regard included the hosting of a public panel session on ‘University and Community Partnership in Building a Sustainable Regional Economy’, seeking to draw wider groups into the debate, and the proposed writing of a report. It was envisaged that this report would draw together the experiences of participating scholars to comment on the development of South Eastern Wisconsin, but do so in a non-prescriptive way that fundamentally incorporated and reflected the input of local actors. Besides providing a focal point for discussions at the Workshop, this report was intended to feed into future discussions within South Eastern Wisconsin, perhaps stimulating ideas and possibilities that could contribute to the locality’s development, thereby leading to new initiatives and activities. In particular, at the time of the Workshop the State was planning the Second Wisconsin Economic Summit. It was thought that this Summit

might provide an ideal opportunity to interact with others who were attempting to stimulate and contribute to new ways forward, not least because material prepared for the previous year's First Wisconsin Economic Summit had provided an important influence on the design of the Workshop.⁷ Accordingly, an objective was to circulate and 'present' the report at the Second Summit, but also to disseminate it more widely on the Internet and among other interested parties within the region.

Finally, perhaps the most visible aim was to produce an edited volume, so as to disseminate both the academic content and the actual experience of the Workshop among a wider, international academic audience.

III.i The Reality of the Workshop

It is clear from the aims outlined above that the Workshop was concerned primarily with the *process* of research and learning, and with rooting that process within the context of ongoing local debate and concerns around the development of a locality. We now explore the reality of that process. Where we do discuss the more visible outcomes, in particular the report, we do so in terms of their contribution to the ongoing process rather than as outcomes in their own right.

In many respects the Workshop can be seen to have broadly fulfilled its aims. In terms of facilitating long-term and evolving research relationships among a group of scholars with related interests, it provided an academic and social environment that allowed the continuation of that process, building on the 2000 Workshop, and on the previous decade

⁷ Nichols (2000), for example, a paper presented at the first summit, was very influential in preparing the questions and topics that *Workshop* participants were asked to consider.

of events associated with EUNIP and *L'institute*. Debate on a range of issues, within and without the sessions, was healthy, vibrant and at times fierce. Moreover, the achievement of a recently published edited volume (Sugden *et al.*, 2003) is a testament to the ongoing research stimulated by the Workshop, as is the further commitment of many of those involved to ongoing projects and initiatives. Regarding the invigoration of the network, the Workshop can also be viewed as a success. Participation by a number of academics new to the network and not involved in the previous event has stimulated fresh research relationships, and several young/new researchers have been integrally involved both during the Workshop and in ongoing projects.

However, a slightly more critical perspective is warranted regarding the second aim, that referring to the local development process in South Eastern Wisconsin. At a somewhat superficial level, there was again a good degree of success. Interesting sessions were given by local business people, academics and public officials on the problems and reality of the local economy, which in turn stimulated a great deal of insightful debate, both at these and other times. Discussions around the sessions given by 'external' participants, for example, frequently shifted towards marrying the various specific concerns of the presenters with the context of local development provided in the more Wisconsin-oriented sessions. There was also a great deal of interesting debate around applying the different perspectives of participants to the specifics of South Eastern Wisconsin in the times allocated for debating and preparing the report. In terms of the more specific outcomes, the public session was well attended, although the audience was not as broad as was envisaged, and a report was produced that genuinely fused the expertise of scholars with the development concerns recounted by local actors involved in the process

(see Appendix D). Nevertheless, when examining the reality more deeply it is clear that some severe limitations were uncovered in the way in which the Workshop sought to become part of the development process.

The designers of the Workshop were extremely conscious of the ‘insider’/‘outsider’ issue; that it is not for outsiders to come into town for a couple of weeks and pretend to understand local conditions and desires, let alone attempt to start telling local people how to run their economy. Consciousness around this stemmed from a theoretical concern, but also from previous experience with public sessions at the *L’institute-Ferrara Graduate School in Industrial Development Policy*. These sessions had attempted, on a smaller scale to the *Workshop*, to fuse the expertise of visiting participants with that of local actors. The insider/outsider distinction had been very marked, however, with most of the ‘real’ business and discussion taking place privately amongst local actors away from the public space; literally in the adjacent corridors. The Workshop, and in particular the report, attempted to reflect this fundamental concern; in style, structure and content. In terms of the report, this was also reflected in careful wording and in a deliberate decision to opt for collective authorship under *L’institute* rather than naming the particular people involved. This was because the report was not conceived as from a set of individuals, but rather from an activity and process involving many participants, both internal and external to the locality.

Despite this expressed concern, however, it is instructive that sensitivity about the role of ‘outsiders’ was strongly evident throughout the process. For example, even amongst the participants there were suggestions that the process of writing the report was flawed

because it implied outsiders presuming to tell ‘locals’ what to do. This was associated with a degree of discomfort of association, particularly among some of the local actors involved.

We suggest that important lessons can be drawn from this sensitivity. In particular, if development is to be based on the aims, objectives and actions of the people of a locality, but if those outside the locality might be able to contribute ideas and suggestions in a co-operative process, then the ways in which the outsiders conduct themselves is crucial. There needs to be conscious awareness of sensitivities and concerns, and of the economic, political and social characteristics of the locality. Related, there needs to be sensitivity on the part of local people; for example a refusal to jump to the depiction of interfering outsiders when that is not accurate. Both insiders and outsiders need to be aware of each other’s roles, respectful of each other, and willing to learn together as the process unfolds. The reality of the Workshop was certainly a step towards such a situation. However, it is likely that a fuller awareness of sensitivities and a greater degree of comfort with each other’s roles in the process can only evolve over a longer period of time. Indeed, there is a parallel with the way in which knowledge, awareness and trust emerge in individual relationships.

Such a conclusion has relevance for the role of multinational relationships in development processes more generally. For example, a common criticism of the Washington institutions in their dealings with less developed countries is that development professionals arrive, stay in top hotels, and then return after a few weeks or months to their career paths in Washington; they are distant from the actual process of development.

Stiglitz (2002) discusses this in the context of the IMF, and Taylor (1997, p. 151) draws an interesting parallel with the criticism by Von Mises (1935) of socialism “on the grounds that ‘as if’ planners could never improve upon capitalism because they would just ‘play’ a market game without being disciplined for their mistakes. The same doubts apply to bureaucrats ‘playing’ at running national economies with their attention focused on career advancement in the institutions back in the United States.” When combined with the charge that the Washington institutions are highly prescriptive in their advice (Palast, 2002; Stiglitz, 2002), a one-way rather than two-way flow, it becomes clear why they are often viewed as ‘outsiders’. Indeed, they are often seen as having a stake or interest in the local development process that differs markedly from that of the local people. In this sense we suggest that a problem with the Washington institutions is that they forge ‘international’ but not ‘multinational’ development relationships.

That the Workshop participants were explicitly conscious of such difficulties from the outset, took great care to avoid being prescriptive, and yet encountered similar problems, highlights the difficulties inherent in genuinely ‘multinational’ interaction where issues of ‘development’ are concerned. It suggests the need for relationships to emerge over time, a perhaps lengthy process of learning, and an evolution of the trust and knowledge about each other that can yield a truly productive co-operation.

Indeed, the intention was that participants at the Workshop would in fact see themselves as part of an on-going process, contributing to refinement of the report and to activities in Wisconsin beyond the immediate two weeks. In practice, they have contributed in terms of ‘routine’ academic activities; for example, developing their chapters for the edited

volume. However, there is a question over their role with the report and with the development process within Wisconsin. Subsequent to the period in Milwaukee, some participants have been active in their input, but not others. In part this is a reflection of the type of self-selection that takes place in much co-operative activity. However, we suggest that it also stems from a lack of clarity amongst some participants about expectations and aims, indicating that these require more effective communication. This is a lesson for the future, and although perhaps obvious, it warrants emphasis. Moreover, a further explanation is probably a lack of belief, a view that the Workshop and the Report, no matter how well meant or how well executed, could not succeed in their aims. In part (and assuming the aims are desirable and can be realised), we suggest that the remedy for this is learning from experience. Success will tend to breed success, and mistakes that are addressed in appropriate ways will yield greater confidence.

The role of the report following the Workshop has also been disappointing in terms of its impact in Wisconsin itself. Despite initial intentions, as it emerged the report was never circulated beyond personnel at UWM, and even there the distribution was not widespread. The basic reason was that it was concluded that the report would not impact on the audience of policy-makers, public officials and business-people concerned with economic development in the State, nor would it impact on the sorts of University personnel involved in the process. This was in essence a judgement call on the part of those concerned. The specific difficulty was thought to be that the report reads as if there exists some form of 'planning' or co-ordination mechanism for economic development in Wisconsin, a process that was subsequently judged to be non-existent. If that judgement is correct, it is an attempted contribution that fails to take adequate account of the

economic, political and social reality to which it is directed. No matter how well intentioned it might be, a report or any other contribution to economic development that misjudges or fails to take account of realities is bound at best to have no impact and at worse to have adverse consequences.⁸

Of course, one conclusion from this train of events might be that it points to a need for an appropriate planning process in the State; if there is no natural recipient of the report, this might represent an institutional omission. Wisconsin clearly has a very active concern with its economic development, but that concern appears to be channelled from and through many independent actors. Admittedly, this impression was gained from discussions at the Workshop amongst a limited group of people, mostly from South Eastern Wisconsin, and none of who included 'official' representatives from the State. However, a report written (deliberately) in terms of 'might' and 'maybe', 'perhaps' and 'possibly', could be seen as too weak and tepid, lacking a decisive approach relevant to the sort of urgency and immediacy that many independent actors seem to be demanding. For example, there is considerable interest in Wisconsin around 'clusters' as a means of promoting its economic development. The Report urges caution, suggesting that 'clusters' is a concept that encompasses many possibilities. This might be a message too easily dismissed as the luxury of academics when Wisconsin's reality is seen to be far more immediate.

We suggest, however, that recognition of a possible demand for immediacy does not imply that the Workshop ought to have glossed over the potential inadequacies in the

⁸ This is related to the argument in Chapter Eight that a contributory factor in Argentina's recent economic and political crisis has been a failure to appreciate the economic, political and social reality in which Washington consensus policies were to be introduced.

ways in which ‘clusters’, for example, might be conceived and therefore pursued in Wisconsin. An outcome of the Workshop, not previously appreciated in Wisconsin, is that those inadequacies might exist, and this is potentially important.⁹ However, the Workshop failed to enable such concerns and their consequences to feed into the local development process.

In summary, some of the aims of the Workshop were clearly met more impressively than others. In particular, there were difficulties and limitations associated with its effective integration with the development process of South Eastern Wisconsin. These, we believe, are largely attributable to two factors. First, the need for further learning regarding the sensitivities surrounding ‘insiders’ and ‘outsiders’ where local development issues are concerned. Second, a report that failed to find an appropriate audience within the region. Both factors can be related partly to an insufficient initial understanding of the institutions and context in which the region’s development is rooted.

While we would suggest that the idea of the Workshop was not ill conceived, the institutions and context of development ought to have been considered more carefully. Had that occurred, either it would have been possible to comment on institutional developments that could provide a favourable climate for the sort of report that was to be written, or knowledge of the institutional conditions would have enabled the writing of a different and thus more appropriate report. As it was, the design of the Workshop was fitted around issues that certain ‘insiders’ had identified as crucial for the State. In that sense it was relevant, and was an attempt not to rely on a long-run academic time-scale,

⁹ This argument is developed further in Chapter Seven.

but instead to contribute on key local issues. In doing so, those involved have learned more about Wisconsin's development process, and learning was one of the aims. Thus while it was disappointing in some sense that sensitivities emerged during the process and that the Report found no 'natural' recipients, the process of learning was necessary for those concerned, and can now inform the way in which such initiatives are pursued in the future.

IV. MOVING FORWARD: LESSONS AND THEIR APPLICATION

IV.i South Eastern Wisconsin and Clusters

Following reflection on the Workshop, an immediate question is 'where do we go from here?' The above analysis suggests that there are indeed many things to be learned from the experience, both for application within South Eastern Wisconsin, and for more general consideration in future initiatives that aim to fuse academic research with local economic development, particularly in a multinational context.

In terms of South Eastern Wisconsin, the experience of the Workshop and the report have highlighted what is perhaps an institutional omission. Amid a seemingly great desire among some to address various local development problems, there appears to be no body or process within the State that can act as a focal point, co-ordinating the different ideas that stem from these concerns. There are, however, the possible beginnings of various such focal points. One in particular might be the Wisconsin Economic Summit, the second, third and fourth of which have since taken place. We suggest that the way in which such focal points develop over the coming months and years is likely to strongly influence the potential for similar processes to impact on development in South Eastern

Wisconsin in the future. Moreover, this has implications both for further multinational initiatives and for the effective integration of the activities of UWM and other local Universities with local development processes.

For example, one of the most important issues to emerge from the Workshop was the strong local concern with clusters as a catalyst for economic development. That clusters was the focus for the Second Wisconsin Economic Summit later in 2001, and the subject of special sessions at the 2002 and 2003 Summits, demonstrates how central much of the research and debate that took place at the Workshop, and that continues to take place within *L'institute*, is to ongoing concerns in Wisconsin. Whilst this research and debate has yet to find a specific way into development processes within the State, there are some hopeful opportunities that are beginning to be explored and thus a chance that it might do so in the future. What would be required, we suggest, would be continued and appropriate evolution in the focal points for discussing, co-ordinating and planning solutions to Wisconsin's development problems, and/or a new, more appropriate presentation of the Workshop debate, research and analysis.

Indeed, one of the key arguments made in the report is that there are significant differences in what is meant by clusters, and that certain forms of clustering may be more desirable than others. A main conclusion was the need for care in embracing clusters as a solution to problems of local economic development; a need to question what is required from economic development, and subsequently determine the form of clustering that might best realise this. Similar arguments are made with regard to other development issues, such as entrepreneurship, and linked to these conclusions is a perceived need for

wider involvement and debate as integral to the development process. One implication, therefore, is that appropriate evolution of focal points for discussing, co-ordinating and planning development in Wisconsin would require a reaching out to broader groups than was achieved at the Workshop, and than currently participate in the Summit. Otherwise, such processes might run the danger of leading to an inaccurate and inefficient identification of problems and solutions.

In terms of developing a new, more appropriate presentation of the type of discussion and research that took place at the Workshop, a further implication appears to be the need to focus more specifically on key topics and issues. It is clear, for example, that clusters are a fundamental concern for many. A highly detailed analysis of this issue might appear more relevant to a range of local actors than, for example, a report which discusses a wider range of issues in a broader, more theoretical, context. However, this is an approach which should be taken with great care; if the identification of key issues is flawed, through reflecting the input of only a narrow group or groups in their determination, then a detailed analysis of any one issue may compound the associated inefficiencies.

This highlights the central importance of the *process* that took place at the Workshop and that takes place at the Summits and at other local (and non-local) arenas. Further learning around how to improve these processes to reflect the views and interests of wider groups, engaging democratically with one another, and to respect the different roles of ‘insiders’ and ‘outsiders’, appears to be the key to an efficient identification and pursuit of development aims and objectives.

IV.ii The Evolution of L'institute Activities since 2001

In the two years since the Workshop *L'institute* has sought to learn from these experiences in terms of the evolution of its own activities, both in Wisconsin and elsewhere. The failure of the report to impact on local development processes represented a serious set-back for *L'institute's* engagement in Wisconsin, and there has subsequently been a refocusing of activities elsewhere to some degree. However, engagement in activities across other localities has been undertaken with a view to learning further from the process and simultaneously seeking to re-engage in Wisconsin.

For example, the issue of clusters has been pursued further through a specific research project that focuses on international experiences in clustering, and the impacts of clusters on different aspects of economic and social life.¹⁰ Many of those contributing to the Milwaukee Workshop have been involved in this project, although again the network has been widened to include researchers new to the process. While the context has taken a more European focus, specifically a workshop in Reus (Spain) during March 2003 and a workshop planned for Toulouse (France) for March 2004, the research has continuing relevance for concerns in South Eastern Wisconsin. A follow-up to the Milwaukee Workshop edited volume is planned, where findings from the European context will be related back to the ongoing process of research, debate and policy formation around clusters in Wisconsin. Indeed, alongside this project, a more specific research initiative on clustering in Wisconsin is being undertaken. Initial interviews of opinion leaders in the political, business and academic spheres were conducted during the Fourth Wisconsin Economic Summit in November 2003, and there is a short one-day workshop planned for

¹⁰ This project is entitled *The Importance of Clusters to Urban and Regional Prosperity in a Globalised Economy*. More information can be found at www.linstitute.org/rprojects/clusters.html, and some of the research associated with this project is expanded upon in Chapter Seven.

May 2004, where the results of this preliminary research will be disseminated and debated locally.

Hence a re-focussing of activities, in this case in Europe, can be seen as a catalyst for re-engagement in Wisconsin. In this sense *L'institute* is attempting to develop further and nurture, through its own practice in academic research, the type of 'democratic globalisation' that was advocated in Chapter Four. The idea of taking lessons from activities undertaken in one locality, seeking to learn from them in projects conducted elsewhere, and then relating those findings back to the ongoing process of the original locality, can be seen as a route to forging influential and truly multinational relationships. Indeed, an aim in this is to learn how to facilitate the flow of knowledge and co-operation over certain issues across localities in a way that maintains its roots in the specific interests of each locality.

The experience of the Milwaukee Workshop has also permeated many other of *L'institute's* activities. For example, it has arguably clarified the thoughts of many of those involved with *L'institute* in terms of what it really means to engage democratically in a multinational context, and has stimulated discussions which have led to the articulation of ideas in terms of the set of guiding principles included in Appendix B. It has also had an impact on events such as the *L'institute-Ferrara Graduate Schools*.

At those *Schools*, for example, an improved understanding of potential 'insider'/'outsider' sensitivities has led to changes in the way in which public sessions are approached. There has been greater care taken to ensure an appropriate mix of local and non-local presenters,

to focus the sessions on issues of real local interest (as determined locally), and to express ideas during presentations in a non-prescriptive, questioning fashion. Thus the sessions have sought to raise questions rather than provide answers, and in doing so to stimulate local debate that also involves the ideas of non-locals. The response has been very encouraging; public sessions at the 2002 and 2003 Schools were characterised by a notably different atmosphere to those in previous years, with a real sense of open engagement in debate around key issues.

A further lesson from the Workshop that has been applied at the Schools has been the need for clearly expressed aims and objectives in such activities. This has been undertaken through a re-writing of the particulars for the 2003 School, more effective email communication prior to the School, and, most importantly, an aims-setting session at the very beginning of the School. The results have again been tangible; the 2003 cohort of participants appeared to really embrace the notion of co-operative learning and exchange of experiences in a way in which previous cohorts, without such a clear process of aim-setting, had not done. As a result, we can perhaps anticipate a greater chance of success in moving towards the key aim of facilitating and strengthening long-run multinational networking in our subject area. Indeed, participants at the 2003 School are currently planning a follow-up workshop to meet and exchange their research ideas, something that builds on a further lesson from the Milwaukee Workshop, the idea that learning to co-operate and build multinational relationships is a long run process.

Finally, the most significant of *L'institute's* activities since 2001 has arguably been the development of a network of partner institutions centred around a proposal to the

European Commission for a Marie Curie Research Training Network. This has built from the existing EUNIP network, but has evolved organically over the last two years in a way that has reflected experience with the Milwaukee Workshop. Particularly, it has applied the important lesson that multinational engagement is a long-run learning process, something that cannot be pushed or forged together in a short space of time. In this regard the current network of seventeen Partners has evolved gradually, taking advantage of different meetings and events associated with EUNIP and *L'institute* to develop meaningful co-operation. The first of these was a EUNIP meeting in London in March 2002, called to discuss possibilities under the European Commission's Sixth Framework funding programme. This was followed by further meetings at the annual EUNIP conference in Turku during December 2002, in London again during January 2003, in Reus at a Workshop associated with *L'institute's* clusters project during March 2003, and most recently at the annual EUNIP conference in Porto during September 2003. The earlier meetings were focused on trying to determine what was desired from the potential funding opportunities, the result of which was that a significant group of those involved decided to apply for a Marie Curie Research Training Network. The later meetings then focussed on co-ordinating the actual proposal, and learning about each other in terms of what each desired from and what each could bring to the specific application. At each of the meetings there was an openness and inclusiveness, extending to invite and involve all of those that wanted to be involved, and as a result new partners emerged at each stage, based on their desire to co-operate and engage.

The organic way in which this network has evolved, building on some of the lessons learned at the Milwaukee Workshop, will hopefully provide a foundation for ongoing

success. The proposal itself passed all of the thresholds for acceptance by the Commission, but was not accepted in the first round of applications. The network has recently redrafted the proposal for the second round, and is awaiting the outcome. Even without this, however, the co-operation and many of the activities on which the proposal is built are ongoing.

Indeed, the learning process is still taking place, particularly with regard to engaging the activities of such a network with local development processes in the localities in which its institutions are rooted. This is where the real lessons from the Milwaukee Workshop are potentially invaluable. A current initiative, for example, is to establish a series of *L'institute Forums for Alternatives for Economic Well-being*, which seek to engage with local actors in the different localities where *L'institute* holds events. The first such forum took place in Ferrara to coincide with the 2003 *L'institute-Ferrara Graduate School*; it attracted an audience of around 75 people, and stimulated a vibrant and lengthy discussion of key local issues. This was a very different and much smaller event than the Milwaukee Workshop. However, its success in stimulating a form of local discussion that had not previously been experienced at *L'institute's* public sessions in Ferrara demonstrated the positive impact of a learning process of which the Milwaukee Workshop was an important part.

V. CONCLUSIONS

The first Part of the thesis argued that a learning approach to democratic engagement constitutes a vital element of development processes if they are to be efficient in terms of meeting the aims and objectives of those seeking to develop. Moreover, it suggested that

localities should not operate in isolation; that truly ‘multinational’ engagement is a route towards democratic forms of globalisation. In this Chapter we have explored a practical application of such a learning approach to democratic engagement in a multinational context. We have introduced *L’institute*, a multinational focal point for research and learning in industrial development and public policy, and examined the specific case of one *L’institute* activity, the 2001 *L’institute-Milwaukee Workshop*.

The Workshop itself can be seen as having had two main aims: to facilitate research relationships among a group of scholars with interests in related fields; and to root the process of research and learning within the context of ongoing debate and concerns around the development of a specific locality, hence becoming part of the local development process. Our reflection on the actual event has suggested that while the Workshop was largely successful regarding the first of these aims, it encountered a number of difficulties in achieving the second. Particularly important were the emergence of sensitivities surrounding the roles of ‘insiders’ and ‘outsiders’, and an insufficient prior understanding of the economic, social and institutional context of the locality, resulting in a report that was inappropriate for feeding into local processes. Both of these meant that the extent to which the research and discussions of an international group of academics was able to engage with local development processes was seriously limited.

It is important to remember, however, that the Workshop itself was only one phase in a long-run and evolving process of learning how to democratically engage around research and learning; both in terms of relationships across academics, and in terms of engaging an

international group of academics with local economic development processes. Clearly there is much to learn about genuinely ‘democratic’ multinational relationships, both what they are and how they might be attained. With a continued learning process we are optimistic that many of the problems encountered at the Milwaukee Workshop can be eased in the longer run. Indeed, we have shown how *L’institute* has taken some of the lessons learned from the Workshop forwards in terms of evolving its own activities, both in Wisconsin and elsewhere. This learning process has led to a much improved understanding of the possibilities and requirements for different types of democratic engagement in an academic context, and hopefully, therefore, to a basis for improved success in ongoing activities.

CHAPTER SEVEN

‘CLUSTERS’ AND LOCAL ECONOMIC DEVELOPMENT

I. INTRODUCTION

This short Chapter builds on the previous Chapter by focusing on one of the issues that was uncovered as potentially important to the development of local economies during the process and analysis of the Second *L’institute*-Milwaukee Workshop. Specifically, we seek to explore more deeply the issue of ‘clusters’, and to highlight some issues surrounding their analysis in a development context. To this end, the Chapter draws on ongoing work contributing to an initiative entitled *The Importance of Clusters to Urban and Regional Prosperity in a Globalised Economy*. This is a research project that has its roots in the *L’institute*-Milwaukee Workshops, and is co-ordinated jointly by *L’institute*, the Centre for International Business and Management (CIBAM) at the University of Cambridge, the Universitat de Barcelona, the Universitat de Rovira I Virgili and the Université Toulouse.¹

The clustering of firms as an economic phenomenon with the potential to provide an ‘engine’ for local economic development is by no means a new concept, and is perhaps most famously rooted in Marshall’s (1907, 1919) analysis of ‘industrial districts’. However, ‘clustering’ as an economic policy concern has become increasingly fashionable in recent years, stimulated in particular by the success of the industrial districts of the so-called ‘Third Italy’ (Piore and Sabel, 1984; Pyke *et al.*, 1990; Becattini,

¹ More information can be found at www.linstitute.org/rprojects/clusters.html.

1991; Dei Ottati, 1991; Becattini *et al.*, 2003). Other successful experiences, whereby clusters of one form or another have been associated with productivity growth and/or employment creation, have fuelled this policy interest,² as has the influential work of Porter (1990, 1998) on competitive advantage.

Indeed, policies to stimulate clusters are today frequently perceived as desirable by local actors and agencies concerned with facilitating local economic development. This is clearly evident in the case of South Eastern Wisconsin, for example, but also in many other localities across the world. What is striking, however, is that ‘clusters’ are often pursued as a solution to problems of local economic development without any real depth of understanding around what they imply, what they require, even what they are. This Chapter aims to raise some issues in this regard, building on the theoretical perspective that has run throughout the Thesis, and to introduce a methodological framework for increasing our understanding of clusters, their impacts and requirements.

We begin in Section II by asking why clusters might be relevant for local economic development. We focus on clusters being conceived as one ‘model of employment generation’, one that potentially offers an alternative to the neo-liberal model associated with the Washington consensus. It is recognised, however, that there is in fact considerable variation in forms of clustering. This highlights the dangers inherent in viewing clusters as a panacea for the economic development problems of a locality, and suggests that fundamental concern should be afforded to analysing the nature and impact of specific clusters. In particular, in Section III we argue that concern with the

² See, for example, Saxenian (1994) on the experiences of ‘Silicon Valley’ and ‘Route 128’ in the US.

governance of clusters is crucial if their potential as offering an alternative to Washington consensus forms of development is to be realised. We therefore offer a methodological framework for analysing clusters from a governance perspective. Section IV provides a concluding summary and outlines the planned progression of this ongoing analysis.

II. CLUSTERS: AN ALTERNATIVE MODEL OF EMPLOYMENT GENERATION?

II.i Clusters, Employment Generation and the Development of Localities

Before embracing some notion of ‘clusters’ as a potential solution to problems of local economic development, it is first important to consider *why* clusters might be important. One response to this is to think of their importance in terms of what is required by localities in order to ‘develop’. It was argued in Part One that development should be seen in terms of the aims and objectives of those seeking to develop, and that therefore the process of determining aims and objectives is an integral part of the development process itself. This thesis, in turn, has strong implications for how clusters might be seen as a tool for facilitating local economic development.

It can be argued that ‘clusters’ are essentially seen by policy-makers as an ‘engine’ which can drive and strengthen local economic activity, and hence generate local employment. Indeed, a key factor behind concern with clusters in South Eastern Wisconsin, for example, is an apparent desire to create ‘high value’ employment in the region. Among other aims, it is hoped that this will make the region more attractive for young graduates and ease a perceived ‘brain drain’.³ Regardless of the other aims that localities might strive for in their development, it is fair to say that concern with some form of economic

³ See Chapter Six, in particular the report included in Appendix D.

activity is likely to be fundamental if development processes are to sustain themselves and be successful in the longer term. Indeed, economic activity and employment form the basis for consumption of goods and services (including basic necessities), and provide activity around which people's lives are structured.

If clusters are seen as an engine for local economic development in this sense, then we can essentially conceptualise them as a particular model for generating employment. In order to understand why they might be important for local development processes, therefore, a starting point would be to examine the role that employment generation plays in development, and develop insight into the theoretical consequences of alternative approaches. In particular, following the argument of the first part of the Thesis, analysis should be guided by an underlying concern with decision-making, and with the scope that different models offer for the uncovering and incorporation into development processes of the aims and objectives of those within a locality.

The way in which employment is generated can indeed be seen as a basic factor separating one pattern of development from another. For example, employment creation that provides training and skills, and/or enhances the involvement of people in the dynamics of workplace and community life, arguably has greater potential to facilitate a development process that is more generally capable of engaging people and thus incorporating their aims and objectives. Thus it could be argued that truly democratic development requires more than simply the creation of jobs - it necessitates fundamental concern with how jobs are created, the type of jobs that are created, and how they can contribute to and interact with the overall and ongoing development processes.

Bruton and Fairris (1999, p. 5) suggest that the issue of labour in development has begun to widen in this regard, to include “a role for work not simply as a source of income but as a direct source of well-being and as an important factor in generating and maintaining growth.” Evidence on work as a “direct source of well-being” can be drawn from a body of literature that uses psychological tests of well-being to link various factors with some notion of ‘happiness’ (Clark and Oswald, 1994; Di Tella *et al.*, 2001; Frey and Stutzer, 2002). Critical among the factors determining happiness is employment, and while the focus is usually on the difference between being employed and unemployed, it seems natural to take this a step further and extend the analysis to qualitative aspects of the work environment. Indeed, when we consider that a large proportion of an individual’s waking hours are spent at work, it seems clear that “a job that provides only income, but not recognition, not learning, not compatibility with the rest of the social environment, is a job that cannot do much to enhance the well-being of the worker” (Bruton and Fairris, 1999, p. 16).

Likewise, concern with work as “an important factor in maintaining and generating growth” suggests that creating employment *per se* is not a sufficient aim in itself. There is a need to create jobs that are lasting, and that in turn generate dynamism and momentum. Indeed, it is important that the economic fruits of development processes are not transitory; that localities are capable of generating the necessary momentum to continue to provide employment that fulfils the aspirations of those living and working there. Again, the type of employment, and the way in which it is created, are likely to have a crucial impact on this aim. There are questions, for example, around the

sustainability of job creation that relies on comparative advantage in cheap labour, a feature of many less developed countries.

Bringing these arguments together, we can suggest that there is likely to be a strong relationship between the process of creating employment, the types of employment relationships that consequently emerge, and the more general development processes that localities are able to nurture. We have argued throughout the thesis that meaningful development requires the engagement of those who are seeking to develop. To place the local community at the heart of development, and to identify and build upon their aims, implies that decision-making remains focussed within the locality. Moreover, it implies that the capacity to become actively involved in decision-making is enhanced over time; that there is a learning process of engagement. In turn, we suggest that the way in which employment relationships develop within the locality, both in terms of engaging local people in decision-making, and in terms of providing training and job-satisfaction that will bring real and felt benefits from their participation, is likely to be fundamental.

II.ii Alternative Models of Employment Generation?

In order to understand the potential importance of clusters in terms of providing certain forms of employment generation, we must consider them in the context of the currently prevailing approach to employment generation. The model that has become prominent in the last twenty years, and which remains so today, is what might be termed the ‘neo-liberal’ or ‘Washington consensus’ model. The consensus policy stance can be summarised as a removal of restrictions on the operation of markets (both domestic and international), a transfer of productive assets to the private sector, and the creation of a

stable macroeconomy. Such policies are geared towards generating growth by facilitating both domestic and foreign investment in activities that reflect comparative advantage. The implication is that employment generation will therefore also correspond to this comparative advantage.

A fundamental feature of this approach, however, is that it is applied from a particular starting point, and one which has strong implications for many localities. To illustrate, consider the so-called 'less developed countries'; to a greater or lesser extent these, and localities within them, tend to be in a weak position with regards international trade. They are often characterised by small domestic secondary and tertiary sectors, and low skills levels among the workforce. A consequence is that comparative advantage tends to occur in labour intensive, low value activities, such as agriculture, extraction, or low-skill manufacturing. Indeed, it was suggested by Lewis (1954) that a large pool of unemployment was the defining characteristic of a 'less developed country', and it is true today that cheap, unskilled labour is often the abundant resource in many localities across the world. If this comparative advantage is to be exploited to the full, then the implication is that wages will be bargained down to their lowest possible levels, with little concern afforded for the quality of employment.⁴ Even if we appreciate the logic behind such policy for an isolated country, Kaplinsky (1993) points to a fallacy of composition; any value is eroded by simultaneous adoption in competing countries, leading to a process of competitive devaluation - what may be termed a 'race to the bottom' (Bruyn, 1999).

⁴ It is partly this process that has stimulated such vocal and militant opposition to 'global capitalism' in recent years, as demonstrated at protests in Seattle, London, Genoa etc.. One area of concern among protesters has been the low labour standards and wages paid to employees in less developed countries. See, for example, 'Storm over Globalisation' and 'The Battle in Seattle', *The Economist*, November 27th 1999.

Such a setting arguably delivers a process of employment generation that maintains poverty, increases inequality, and generates poor quality employment relationships.

Most fundamentally, however, the neo-liberal model does not afford the vast majority of localities significant scope to determine their own development paths. A reliance on static comparative advantage implies that they are in danger of becoming pawns in the process of competing for inward investment; essentially subject to the decisions of distant actors. This is in line with Hymer's (1972) vision of uneven development, where there is a clear international division of labour. High level decision-making is concentrated in a handful world centres, certain regional centres are able to maintain some control over medium level decisions, but the rest of the world is confined to low level decision-making and a lack of control over many of the concerns that are fundamental to their own development aims and objectives.

Of crucial importance when analysing clusters, therefore, is to understand under what circumstances they might offer an alternative approach to employment generation; what scope do they present for facilitating the development of localities where all three 'levels' of decision-making are integrated and reflected in employment opportunities?

Recent interest in clusters has been prompted essentially by a range of positive experiences with agglomerations of firms in some sense. A variety of theoretical explanations for their economic success have been identified, mostly rooted in Marshall's (1907; 1919) seminal analysis of 'external economies'. Schmitz (1995), for example, distinguishes between geographically/sectorally dispersed producers and clusters of small

enterprises, and forwards the concept of ‘collective efficiency’ to capture the gains that the second group opens up over the first. By incorporating both incidental and consciously pursued gains, however, his notion of collective efficiency encompasses more than the (incidental) ‘external economies’ associated with Marshall. In particular, it is acknowledged that purposeful joint action and forms of co-operation between firms are features of many clusters.

Indeed, the large literature that has emerged around the influential experiences of Italian and other European industrial districts, which demonstrated resilience and growth over a sustained period during the troubled economic environment of the 1970s and 1980s, has consistently placed strong emphasis on qualitative dimensions such as trust, co-operation and the role of institutions (Piore and Sabel, 1984; Goodman and Bamford, 1989; Pyke *et al.*, 1990; Becattini, 1991; Garofoli, 1992; Schmitz and Musyck, 1994; Becattini *et al.*, 2003). From this debate have emerged a number attributes that are believed to be central to their success. These are summarised by Schmitz and Musyck (1994, p. 890) as:

[G]eographical proximity, sectoral specialization, pre-dominance of small and medium-sized firms, close interfirm collaboration, interfirm competition based on innovation rather than lowering wages, a socio-cultural identity which facilitates trust relations between firms and between employees and skilled workers, active self-help organizations, and active regional and municipal government which strengthens the innovative capacity of local industry.

The focus here on the qualitative nature of relationships is of especial interest, in particular the strong emphasis on different forms of co-operation existing alongside competition, and the importance attached to trust in firm and employee relationships. Indeed, a first impression from much of this literature is that clusters of firms might in

fact offer a very different model of employment generation to that arising from neo-liberal policy in a global capitalist setting. The characteristics of co-operation and trust that are identified with these particular clusters, for example, are characteristics that seem important if development is to be built from the local economy, engaging all interested actors within that local economy in strategic decision-making. A cluster might potentially be seen, therefore, as a form of economic organisation that is in some sense embedded in the locality where people live and, as part of their lives, where they are employed. In this situation, the relationships among the actors of a cluster (including its firms, but also encompassing its other organisations and institutions, and its individuals) necessarily appear as economic, but also as social, political and cultural. The functioning of the cluster, including the way in which it generates and maintains employment, will essentially be a part of the locality, rooted in and derived from the concerns of that locality.

There is recourse to be cautious in forming such an impression of clusters, however. Schmitz (1995), for example, cautions that there appears to be a mismatch between the attention afforded to the European cases, and what is actually known about them in terms of solid quantitative and qualitative evidence. Moreover, the experiences of the Italian (and other European) industrial districts constitute only a small part of the literature on clusters more widely conceived. Indeed, within this wider literature there is considerable and increasing scepticism around the phenomenon of clusters. Martin and Sunley (2003, p. 5), for example, suggest that there are fundamental “conceptual, theoretical and empirical” questions surrounding clusters, which cast doubt on their validity and usability in shaping economic development policy. In particular, they argue that there is a

“chaotic” use of the term cluster, in the sense of “equating quite different types, processes and spatial scales of economic localization under a single, all-embracing universalistic notion” (p. 8), something that they attribute to the definitional incompleteness of Porter’s (1990; 1998) conceptualisation. Explicitly or implicitly, and from different theoretical starting points, others have also expressed their doubts over a uniformity to the concept that is often more or less presumed (Amin and Robins, 1990; Markusen, 1996; Gordon and McCann, 2000).

Thus, while we might suggest that certain influential experiences with clusters of firms point towards a potentially different model of employment generation, and one that appears more consistent with a democratic, engaging approach to development, we must also acknowledge that there is considerable confusion surrounding the term ‘cluster’, reflecting a great deal of variation in ‘clusters’. Most crucially, such an acknowledgement highlights real dangers in viewing ‘clusters’ *per se* as a panacea for the economic development problems of a locality, dangers that have arguably been enhanced by the influential nature of Porter’s (1990, 1998) promotion of clusters as a key local policy tool (Kotval and Mullin, 1998; Martin and Sunley, 2003). In terms of our analysis of potential alternative models of employment generation, the implication is that we cannot proceed further without a deeper understanding of the variation within ‘clusters’, and of the impacts and requirements of different forms of clusters.

III. TOWARDS A METHODOLOGICAL FRAMEWORK FOR ANALYSING CLUSTERS

III.i The Governance of Clusters

In seeking to analyse the significant variation in clusters we need to identify some way of distinguishing between different forms in terms of their impacts on local development. The theoretical perspective developed throughout this thesis is focussed on the especial significance of governance, and therefore learning, to the development of economies. It would suggest that the types of cluster that are particularly interesting are those with a potential for forging non-hierarchical, democratic relationships among economic actors within a locality. An understanding of clusters as a model of employment generation that offers an alternative to the strategic failure of the neo-liberal model, therefore, requires an analysis that distinguishes on the basis of such features.

In particular, the centrality of governance to the very meaning of development implies that it is also central to the impact of clusters on development; the impact of clusters will be determined by the way in which development, and therefore clusters, are governed. Thus an analysis of the impact of clusters on development should afford especial concern with how they are governed. Indeed, the emphasis throughout much of the European industrial districts literature on qualitative features such as co-operation and trust can be thought of as potentially implying a different approach to the governance of economic activity. Clusters associated with such features might be seen as engendering an approach to the governance of key decisions that engages different actors, integrating rather than concentrating the different levels of decision-making.

Such a situation is by no means a foregone conclusion, however, and in-depth analysis of the actual governance of economic activity associated with clusters is not an issue that has typically pre-occupied the literature. Moreover, where governance has been touched upon, it tends to re-enforce the imperative for our concern. Harrison (1992, 1994), for example, explores a number of cases and suggests that in some industrial districts market share has been increasingly concentrated in the hands of a few firms and there has been a move towards “more concentrated, asymmetric and unbalanced forms of organization and system governance” (1992, p. 478). Markusen (1996, p. 297) cautions against “singular enthusiasm” for districts on similar grounds, pointing to the “presence (or absence) of distinctive and lopsided power relationships, sometimes within the district and sometimes between district entities and those residing elsewhere”.

That concern with qualitative relationships and their evolution does not seem to have received a great deal of explicit attention may be partly because forms of governance are often implicitly demonstrated in the analysis of cooperation and competition in production, rather than explicitly explored in their own right. There is a common perception, for example, that the ‘industrial atmosphere’ of many clusters tends to help fuse competitive and co-operative relationships, contributing to less-hierarchical and more democratic decision-making processes. A danger with this perception is that it can be assumed to apply wherever the title ‘cluster’ is used, whereas it is clearly not the case with all ‘clusters’.⁵ An implication, therefore, is the need for explicit and focussed analysis of the forms of governance that actually exist in different clusters.

⁵ See, for example, Lazerson and Lorenzoni (1999) on the case of a cigarette packing machinery cluster in Bologna, Italy, and Whittaker (1997) on the Die and Mould Industry Association in the Ota Ward of Japan.

III.ii The Imperative for a New Methodological Framework

Qualitative issues surrounding governance are clearly not the focus of existing methodologies for the analysis of clusters, indeed for the analysis of economic development more generally. Of fundamental concern is that the majority of existing methodologies tend to centre on what might be perceived as relatively superficial features. For example, the neoclassical perspective on regional economics has a basic preoccupation with “pure and perfect market competition” (Harrison, 1992, p. 476), relegating social, cultural and political factors to very minor or even non-existent roles. Consider also Porter’s (1990) ‘diamond’ model. While providing a seemingly practical approach to identifying the weaknesses and strengths of local clusters by concentrating on four determinants of locational competitive advantage,⁶ this continues to focus essentially on markets and competition. Even the ‘network’ approaches (Powell, 1990; Uzzi, 1997; Staber, 2001), which emphasize linkages among actors, have not convincingly addressed fundamental concerns around the governance of linkages.

Rather than focussing on governance, these approaches, particularly in their consequences for the policy agenda, have implied an over emphasis on a narrow evaluation of traditional quantitative characteristics; for example, giving special stress to the aggregate output of a cluster, its number of new jobs, or its number of new enterprises. Accordingly, this narrow evaluation of relatively superficial attributes, when widely applied to case studies of successful clusters, has led to an assumed association of the label ‘cluster’ with favourable provision of employment, encouragement of entrepreneurship, and so on, as well as to the label being equated with the facilitating of

⁶ These are: factor conditions; demand conditions; firm strategy and rivalry; and related and supporting industries.

long-term, dynamic regional development. From there it seems to have been a short step for policy-makers to appeal to clusters as a panacea for their economic ills without recognising the important evolution of their vital qualitative characteristics.

Such a context provides a strong imperative for a fresh methodological framework within which economic development, and therefore clusters, can be analysed. Branston *et al.* (2003a) provide a general framework for analysis of the development of local economies and the potential impact of public policies that is focussed on governance. Rooted in a theoretical imperative for the centrality of governance to economic development, they identify five key issues around which case studies of localities might be structured: the economic background of the locality; the extent and provision of learning and health within the locality; the actual and potential networks that span localities; production governance within the locality; and the extent and impact of public policies on the other four issues. For each of these they then outline a series of detailed topics for potential exploration. They envisage both ‘full’ and ‘partial’ case studies of localities, one option for a partial study being to “concentrate on actual/possible/alleged ‘clusters’ and their impact on the development of a locality” (Branston *et al.*, 2003a, p. 17).

Building from this general methodological framework, therefore, we can outline a similar framework for the specific analysis of clusters. We must recognise as a starting point that the term ‘cluster’ has been applied in practice to experiences that are extremely varied, and that in principle it is desirable to be able to analyse any of these experiences so as to understand the fundamental determinants of their impact. Our framework accordingly starts from a very general notion of clusters; there is a cluster in a locality if that locality

has a set of interconnected organisations/institutions focused on related production activity. This incorporates a very wide range of cases, from which the methodology seeks to distinguish clusters by their qualitative characteristics pertaining to the governance of production. Who is involved in the linkages and networks of a cluster? How are strategic decisions taken among those actors? Who has the power to make strategic decisions that impact on others? These are the sorts of questions that are of crucial importance to understanding the essence of relationships in a cluster; therefore to distinguishing between different types of clusters, and to understanding the central determinants of the impact of a cluster on forms of employment generation and local economic development.

The framework is necessarily multidisciplinary, capable of fusing different perspectives in order to analyse the different impacts of clusters, and of public policy around clusters. It also recognises the need to understand the relationships both between actors within a particular cluster in a locality, and also between local and non-local actors (including firms and organisations/institutions within clusters in other localities). The objective is to identify the real strategic decision-makers, who might be internal or external to the locality. Indeed, it is recognised that the strategic decisions affecting clusters may be made from within the cluster, but perhaps by a subset of interested parties, or they may be governed from outside the locality. In this respect, the approach goes beyond the traditional geographical or industrial boundaries of cluster analysis and avoids the limits of many methodologies that are overly concerned with endogenous growth.

III.iii Methodological Framework: Key Issues and Detailed Topics

Mirroring Branston *et al.* (2003a), a suggested methodological framework for analysing the impact of clusters on local economic development is centred around five key issues. Topic A covers the contextual background of the case, while topics B to E pursue issues pertaining especially to governance and rooted in the theoretical argument of Part One of this thesis.

A. The economic background to the presence and development of a cluster in a particular locality. What are the principal economic characteristics of the locality? What are the mix and impact of firms of different sizes within the cluster? What is the availability of health services?⁷

B. The actual and potential networks that span the cluster. What linkages exist across actors within the cluster and between actors within the cluster and those in other localities? Are actors in the locality involved in networks that impact on the development of the cluster?

C. Cluster governance. Who governs and to what effect in each of the actors and networks in the cluster?

⁷ The availability of health services is a background characteristic worthy of emphasis because of the central role that health plays in people's lives; in particular we suggest that health is likely to impact fundamentally on the capacity and scope for people to engage in governance processes surrounding development. For a detailed analysis of health from a governance perspective see Branston *et al.* (2004).

D. The extent and provision of, and entitlement to, learning within the cluster and the locality. What is the availability of different types of education? Are there effective means of communicating ideas across actors within the learning sector?

E. The extent and impact of public policies - at local, national and international levels - on the above. What public initiatives for clusters are currently in force, do they impact on the development process and are there opportunities for improvement?

Within each of these key issues there are suggested a number of detailed topics around which existing and new information could be collated and collected. It should be emphasised, however, that the intention is merely to present clear and precise guidelines, not to be rigid. Analysis of these topics should incorporate the need to reassess, to narrow down, and to guard against errors and omissions through feedback.

A. The Cluster and the Locality

A brief description of the locality to provide the background and context for the study, focusing on:

- ✓ The overall economic, social, political, geographical and cultural background to the cluster, including a historical perspective and a comment on the infrastructure.
- ✓ The number of firms in the cluster, by size (number of employees, turnover), ownership type (for example, sole traders, partnerships, public limited company), production process and sector. The identification of any especially prominent groupings within the cluster.

- ✓ Identification of the significant non-firm actors/influences in the cluster. These include governmental institutions, non-governmental institutions, financial institutions, educational and health institutions, and international agencies. Also interesting is the possible presence of a broader range of associations, forums and activities where people meet in common function and/or where ideas are exchanged. Included in these are local trade associations and trade unions, service centres, science parks, media, youth/activity/community groups, sports clubs, religious gatherings/churches and other interest/pressure groups.
- ✓ Aggregate indicators for the cluster and for the locality over recent years, notably as regards: employment and unemployment; output; value added; exports and imports; productivity; innovation; investment; immigration and emigration; dependency ratios and demographics.
- ✓ The availability of health services in the cluster and the locality, including financial and other constraints on access to health processes. Health levels of the population.
- ✓ Identification of the opportunities for and constraints on the cluster resulting from the characteristics of the locality, including where applicable the extent, composition and impact of the informal sector.

B. Linkages and Networks

Evidence of actual and potential networks involving firm and non-firm actors in the cluster and locality, focusing on:

- ✓ Linkages (both formal and informal) between actors within and across sectors. These might include ties over trade – such as common marketing and purchasing, forward and backward industrial linkages or subcontracting relationships – as well as ties over

investment, research and development, and joint activities in the pursuit of public support (for example, European Union funding).

- ✓ The membership and activities of significant non-firm actors in the cluster and the locality, such as trade associations, as a gauge to the extent and characteristics of relationships across the economy.
- ✓ Linkages (both formal and informal) with economic actors in other localities, including in different nations.

C. Cluster Governance

In certain respects this issue is the fulcrum of the case study, focusing on:

- ✓ Decision structures of the cluster, including of its firms and non-firm actors. This includes identification of who is involved in making the decisions, and thus of dominant sectors, firms or non-firm actors within the cluster.
- ✓ Evidence on the actors involved in making strategic decisions in the cluster, specifically on where those decision-makers are based (within or without the locality), how decisions are taken, and on whose interests are taken into account. Included in this, the influence of interest groups (local/national/international, and concerned with issues that affect the cluster).
- ✓ The ownership structures of firms operating in the cluster, highlighting whether firms tend to be owned by individuals, families, governments, institutions, other firms, workers or co-operatives, and commenting on where those owners are based geographically.
- ✓ Co-operation and conflict between actors in the cluster in making strategic decisions, be it amongst themselves and/or with others. In part this is a focus on the governance

of networks with which the cluster is involved. Establishing, for example, if one or a few of its constituents dominate a network's strategic decision-making process, or if there is broad participation. In part, the concern is whether actors integrate and coordinate their activities. For example, whether firms influence the strategic decisions in learning and health institutions to ensure that their needs are met, or if one sector (perhaps finance, for instance) is seen to constrain others inappropriately.

- ✓ The existence of mechanisms, processes and social norms that serve to self-regulate relationships within the cluster, and their influence on governance.
- ✓ The significance of forums and channels for interested parties to represent their views on strategy to firms and other actors in the cluster. These might include the use of media, discussion groups, planning enquiries, consultation exercises and regulatory agencies.
- ✓ The constraints and influences on strategic decisions that stem from forces external to the cluster and its locality, for example from international agencies such as the World Trade Organisation, World Bank, International Monetary Fund, United Nations and European Union.

D. Learning

The level and *process* of learning are the particular concerns, focusing on:

- ✓ The existence of networks between actors within the cluster and the locality for the purposes of learning and knowledge generation.
- ✓ The availability of education in the cluster and locality, including the numbers in school, in further and higher education as a proportion of their respective age groups,

the duration of compulsory education, the extent of vocational training programmes, financial and other constraints on access.

- ✓ Attainment levels in education, in their national and international context.
- ✓ The provision of training by firms and industry organisations in the cluster, including its effectiveness, budgets by sector and firm size, and the provision of public support.
- ✓ The generation of new knowledge in firms and in other institutions in the cluster, including investments in R&D (by firm size) and the amount of research funds directed to local educational institutions (in absolute terms and relative to amounts elsewhere), and the ability to take advantage of the knowledge generated.
- ✓ The degree to which new knowledge is accessible by interested actors in cluster and the locality.
- ✓ Access to and use of communication media (including libraries and the internet) for the different actors within the cluster and the locality.

E. Public Policy

A description focusing on:

- ✓ An outline of the apparently significant public policies (including laws, regulations, joint actions across private organisations/institutions) that are currently in force in the cluster and its locality - whether these be local, national or international initiatives - and that are relevant to the key issues in the case study.
- ✓ The decision-making processes for determining these public policies.
- ✓ The impact of these policies on the cluster, including: evidence on whether or not particular policies are actually implemented; on whether or not affected actors are

aware that the policies exist and, if so, were involved in their formulation; and (where available) quantitative and qualitative data.

IV. CONCLUSIONS

This Chapter has sought to further analyse one of the key issues uncovered as potentially important for local economic development processes at the Second *L'institute*-Milwaukee Workshop. Building on the notion that 'clusters' are frequently seen as an 'engine' for local economic development, we have focussed on their providing a particular model for generating local employment, one which potentially offers an alternative to the neo-liberal approach associated with the Washington consensus. Recognising the variation in clusters, however, we have developed an analysis that is rooted in the theoretical framework of Part One of the thesis. This suggests that the governance of clusters is of central importance if they are to provide an alternative capable of integrating local aims and objectives into development processes. Indeed, for us it is not clusters as such that are interesting and potentially important *per se*; it is what they might imply for the development of economies.

While much of the large literature on clusters refers to characteristics that might be consistent with development that democratically engages different actors in the locality, there has been little explicit analysis of the governance of clusters. This is of particular concern given the increasing popularity of clusters as a policy tool for local economic development, where they are often seen as a panacea to development problems. In response to this perceived deficiency, we have outlined a methodological framework within which specific clusters might be analysed. This draws on the general framework

of Branston *et al.* (2003a), and is focussed on the nature of governance relationships within clusters.

The suggested framework provides only a starting point, however. We have provided a guideline for the collation of existing information and the collection of new information around specific case studies. In practice, case studies are likely to rely on the collection of new information; our reading of current literature suggests that many of the fundamental issues on which our framework focuses are ignored in current casework. This presents a major challenge for further work, not least in overcoming practical difficulties in identifying suitable techniques and processes for capturing the influence of different strategic decisions. In this regard, a pilot case study is currently being undertaken on clustering in Wisconsin, and it is envisaged that this will be the start of a long-run research initiative exploring specific cases. This Chapter hence represents just the starting point in exploring one avenue of research that emerges from the theoretical argument of the overall thesis. The next and final Chapter explores a different avenue, showing how the analysis might be applied not to a specific issue such as clusters, but to the experience of a particular country.

CHAPTER EIGHT

THE CASE OF ARGENTINA: HISTORICAL ROOTS OF CRISIS AND POTENTIAL WAYS FORWARD

I. INTRODUCTION

This final Chapter seeks to apply the theoretical analysis of the Thesis to the specific case of Argentina. The Argentinian case is particularly interesting because of the country's dramatic reversal of apparent fortunes. Less than ten years ago it was seen as a 'model student' of the international organisations, having adopted the 'Washington Consensus' policy approach, and was considered a great hope for Latin American development. Today, however, it is in the process of recovering from severe economic and political crisis, which came to a head in December 2001 with the resignation of President Fernando de la Rúa at a time when haphazard financial controls prompted scenes of looting in Buenos Aires and other cities.¹ The turmoil has led many commentators, in Argentina and abroad, to view the situation with a resigned hopelessness, amid often-fierce debate over where things went wrong. This Chapter analyses and reflects on the historical context of the recent crisis, and then uses the theoretical underpinnings developed in Part One of the thesis to inform an exploration of potential routes forward for at least parts of the country.

¹ See, for example, 'Argentina in Crisis: Looting, Bloodshed and Panic as a Nation's New Poor Explode Over Their Economic Meltdown', *The Independent*, December 21st 2001, and 'President Who Stumbled from Failure to Disaster', *Financial Times*, December 22nd 2001.

Typically, analysis of the Argentinian crisis has focussed on macroeconomic issues, particularly on the roles played by the country's huge debt, its exchange-rate 'convertibility plan', and its fiscal and monetary policy (Feldstein, 2002; Fanelli and Heymann, 2002; IMF, 2002; Kiguel, 2002). The most frequently accused culprits are hence the Argentinian political elite and the International Monetary Fund (IMF). The political elite is charged with economic mismanagement and self-serving corruption,² while the IMF has been heavily criticised from both sides of the political spectrum for its past and present policies towards Argentina.³ We suggest, however, that focussing exclusively on macroeconomic issues is counterproductive in terms of developing sustainable solutions that address the root causes of Argentina's economic problems. While these issues are undoubtedly important in explaining the immediate crisis – Feldstein (2002, p. 8, emphasis added) argues confidently that “an overvalued fixed exchange rate ... and an excessive amount of foreign debt were the two *proximate* causes” – it is imperative to also examine the underlying structural reasons behind Argentina's consistently erratic economic performance. We therefore analyse the crisis from a historical perspective, which leads to the suggestion that its roots lie in a microeconomic industrial structure that is inappropriately matched with the macroeconomic policies of the Washington consensus. We argue that this mismatch is a problem of the Consensus more widely, and examine ways forward that combine changes in policy at both local and international levels.

² For a reflection of some of this criticism see Pastor and Wise (2001), IMF (2002), 'Middle Classes Face Ruin as Argentina's Crisis Widens', *The Observer*, December 23rd 2001, 'Divided they Fall', *Financial Times*, January 2nd 2002, 'Embracing Failure', *Buenos Aires Herald*, January 10th 2002, and 'Back to Revolution', *Financial Times*, February 21st 2002.

The Chapter highlights four specific concerns. Firstly, the notion that historical roots, and thus context, are crucially important for implementing successful economic development policies. Secondly, that the industrial structure of a country provides a context which is particularly vital. Thirdly, that different forms of co-operation are important in building appropriate microeconomic structures and processes, and that changes in attitudes to co-operation could form the basis for a way forward for localities within Argentina, and more widely. Fourthly, that appropriate co-operation at a local level needs to be complemented with forms of multinational co-operation that will generate sufficient scope for the rebuilding of the industrial structure.

Sections II, III and IV focus largely on the first two concerns, pursuing an analysis of the history of Argentinian economic development. Section II considers the period to 1990, following Kosacoff (2000) in dividing it into three distinct phases, each marked by a combination of dramatic political events and remarkable economic instability, and drawing heavily on Bianchi (2002). This leads into an analysis of the post-1990 ‘Washington Consensus Phase’ in Section III, where present problems are linked to the persistent failure to generate an industrial structure around which development could be built. The insight provided from our historical analysis is reflected upon in Section IV, and it is argued that failure to take account of the context in which economic reform takes place is a problem of the Consensus more generally. Section V then addresses the latter two concerns, analysing what approaches might move Argentina (and other countries) towards successful economic development. Finally, in Section VI we draw conclusions.

³ See, for example, ‘Argentine Accuses IMF of Meddling: Criticism Is Seen Damaging Efforts Toward Recovery’, *The Washington Post*, January 14th 2002, ‘¿El FMI es la solución o el problema?’, *La Nación*,

II. THE HISTORICAL ROOTS OF ARGENTINA'S CRISIS

II.i Phase One: The Consolidation of an Approach based on Agricultural Exports

When Argentina became independent in 1816 there was a sharp contrast between the trading, Europe-oriented city of Buenos Aires and the agricultural and colonial provinces. Following a period of dictatorship under General Ortiz de Rosas, which consolidated the power of the provincial landed oligarchy, a federal constitution was adopted in the 1850s and the cosmopolitan and commercial city of Buenos Aires became capital (Incisa di Camerana, 1998). The productive structure was transformed during the following years. The traditional agricultural economy became progressively oriented towards the production of exports to Europe, in particular cereals and meats. For example, Luna (2000, p. 99) reports that in the space of 30 years following 1878 (a year when none of the crop was sold overseas), wheat became the country's leading export.

This transformation sealed an alliance between the most modern sector of the agrarian aristocracy and the new trading and professional classes of the city. The economic model hinged on agriculture and associated secondary industries, and an industrial core was developed throughout the 1890s that relied upon, for example, factories that chilled and canned beef (Romero, 2002; Luna, 2000). Thus the modernisation of the economy came about essentially through a combination of increased agricultural land use and overseas trade. Moreover, in entering international trade the focus was on exports of agricultural products and related primary goods; the manufactured and basic goods needed for the development of infrastructure were imported. It is in this context that Alberti *et. al.*

March 24th 2002, 'Revolt of the Wronged', *The Guardian*, March 28th 2002.

(1985, p. 8) refer to “the original sin” of modern Argentina, namely modernisation without industrialisation.

Argentina at this time can be seen as an oligarchic society that maintained economic, political and social power through land ownership. The model of economic growth was based on profit derived from the land, and democracy could not be expressed in terms of popular sovereignty, but rather of collective reason, interpreted and directed by an elite that viewed leadership as hereditary and natural (Alberti *et. al.*, 1985). Within this, economic modernization was sought through intensive agricultural production and selling related products abroad. Industrial activity that was not connected to agriculture was considered unnecessary and brought no social prestige. While port towns grew thanks to a model based on the export of primary goods, and international trade saw the growth of the merchant bourgeoisie, industrialisation did not develop as an alternative to land ownership. Rather, and unlike in Europe and the US, it was subordinated to land ownership.

II.ii Phase Two: Industrialisation Based on Import Substitution

This economic model encountered a crisis in the 1930s, when the world economy suffered a setback and countries reacted by raising protectionist barriers. Faced with the progressive closure of agricultural export markets, Argentina responded by increasing import barriers for manufactured goods which, until then, had been sourced from Europe. Domestic manufacturing industry consolidated, in response to limited domestic demand, but it was only at the end of the 1930s that regulation explicitly in support of national industry was outlined. Moreover, this was not conceived as an instrument to support

industrial development, but was instead validated in military terms, the aim being to guarantee autonomy of supplies. However, convergence between the military, new industrialists, professional people in the capital city, and the agrarian sector, led to the 'Pinedo Plan' in 1940. This was the first attempt to outline a development strategy oriented towards the consolidation of manufacturing industry as a substitute for the export of primary goods. The plan was approved by the Senate but was not considered by the Chamber of Deputies, where radicals, traditionally with a strong disregard for industrial development, were in a majority (Romero, 2002). Moreover, the advent of World War Two, necessitating both agricultural and industrial production for domestic purposes, pushed Argentina further towards import substitution based industrialisation.

Unlike the food industry, which was linked to agriculture, the emerging new industry was essentially an urban activity. It was centred in Buenos Aires, which had a social structure that fostered the growth of political organisations and trade unions that had until then been marginal. The post-war period saw a consolidation of this structure, characterised by the rise of Juan Domingo Perón. Peronism was rooted in a social context that was urban, labour oriented, open to immigration, and where the state assumed the role of economic planner. There was hence an attempt to mobilize "popular sectors as a resource to break that 'status quo' represented by the oligarchic power" (Alberti *et. al.*, 1985, p. 10). While the agrarian sector initially responded with violent opposition, a compromise was eventually reached which overpowered the landowners politically but did not reduce their economic power.

Perón was overthrown in 1955 by a military coup which took place in the context of a struggling economy (Incisa di Camerana, 1998). The so-called 'Revolución Libertadora' (Liberating Revolution) sought to re-create the old economic and political establishment, excluding immigrants and the industrial sectors that had consolidated during Perón's government. The economic model based on import substitution remained, but was now characterised by progressive action to encourage exports, and by the emergence of large multinational firms, which rapidly occupied the most dynamic sectors of the economy. While there was an attempted return to the old liberalist model, based on the export of primary goods, an inherent policy tension was present in that this existed alongside protected industry. Some of this tension was relieved in 1958 by the election of Arturo Frondizi as President, who supported the development of basic sectors essential for growth, from petrochemicals to iron and steel. For the first time this placed heavy industry at the core of the Argentinian economy.

Indeed, this *desarrollista* (developmentalist) approach was not entirely different from the experience in Italy, at that time at the height of success. It demonstrated how a country with little capital and entrepreneurial capabilities could grow simply by making use of intermediate goods - particularly chemicals, iron and steel - produced at low costs by public firms or, alternatively, strongly supported by the state. Under such a model Argentinian manufacturing reached its peak in the 1960s, constituting 28.18% of GDP, while exports of manufactures - almost zero in the 1950s - made up a quarter of all exports in the early 1970s (Kosacoff, 2000, p.42). However, Frondizi's developmentalism did not have adequate political consensus and was trapped between the authoritarian pressures of the agricultural sector and the populist movement of 'Peronism

without Perón' (who was expelled from the country). The model was also threatened by a new international crisis; the end of currency stability, following dollar non-convertibility in May 1971, ultimately prompted an enormous increase in the price of raw non-agricultural goods.

At the same time, the internal political and institutional situation deteriorated due to weak governments and military coups. Following a period of dictatorship under various military generals (Romero, 2002, p. 192), Juan Domingo Perón was recalled and re-assumed the presidency, his wife, Isabel Martínez, being vice-president. When Juan Domingo Perón died in July 1975, Isabel inherited the presidency, while the country fell into a terrorist war. The economy veered out of control, prices rising dramatically, and during the night of 23rd March 1976 the army staged a coup that had been publicly announced three months before. General Videla, amidst unprecedented repression, launched the *Proceso de Reorganización Nacional* (Process of National Reorganisation), heralding a third stage in Argentina's economic development.

II.iii Phase III: Unilateral Opening of Markets

The *Proceso* was supported by the ongoing alliance between the agricultural oligarchy and the military, which attributed the crisis to the development of a protected national industry. Under Martínez de Hoz, Minister for the Economy, the policy response was focussed on a unilateral opening of the economy. However, this economic project was to lead to de-industrialisation, the emergence of financial speculation, and ultimately to deep crisis.

There was initially a recovery of production, particularly of durable consumer goods, and of investment. This followed a long phase of barriers to investment, and was encouraged by expectations of a recovery in internal and international demand, supported by reductions in internal labour costs. Immediately following the coup a salary freeze had reduced inflation, with internal demand falling as a consequence of the actual impoverishment of the population. However, structural features were not managed, leading to endemic inflation and accompanying restrictive monetary policies that resulted in a freeze in the economy. In December 1978 the military government then suddenly opened the economy in an attempt to counteract the inefficiency of restrictive policies. It abolished all customs protections, announced a currency devaluation, and liberalised the capital market. The immediate result was flight of capital – both of multinationals already established in Argentina, and of national capital. Moreover, policy designed to reduce inflation at an international level through planned devaluations of the peso against the dollar was unsuccessful. Devaluations were anchored to estimated inflation values which turned out to be lower than actual values, resulting in consistent revaluation of the peso while inflation persisted. At the same time, the opening of the internal market exposed national firms to international competition, while the internal growth of interest rates, induced to control inflation, generated debts that quickly exceeded companies' assets. This brought about arguably the worst crisis of the industrial sector in Argentinian history (Kosacoff, 2000).

Amidst hyperinflation the system became polarised between a small minority able to renew their investments, either by their own means or using external credit, and the majority of companies, which reduced their activities to a minimum or simply became

importers or intermediaries. Multinationals left, the inflow of foreign capital stopped, capital fled abroad, and there was intense financial speculation, marking the beginning of what O'Donnell (1982) calls the economy of '*saqueo*', of 'looting'. This time also saw the emergence of certain national groups which began to determine a new industrial profile. They were new immigrant family groups which had grown due to financial and speculative activities, and due to the purchase of productive assets from departing multinationals or from smaller firms that were closing down.

Following a series of changes within the military government, Raúl Alfonsín was elected as president in 1983, facing foreign debt and a fiscal crisis amidst unprecedented hyperinflation. During the military government foreign debt had increased enormously, and the State's ability to tax was now highly restricted, pertaining largely from customs on exports. Moreover, unlike in Brazil, where foreign credit was translated into investments, in Argentina the debt had been used to fuel imports of consumption goods and flight of capital (Incisa di Camerana, 1998).

In 1985 the *Plan Austral* (Austral Plan) was approved. This introduced a new currency (the Austral) and was expected to reduce inflation through a programme that included: the freezing of prices, wages and public utility rates; fixed foreign exchange and interest rates; financial cuts from the Central Bank; complex fiscal reforms; and even more complex State reforms (Romero, 2002; Sylos Labini, 1986). The plan quickly managed to halt inflation, but this was short-lived, and "by the end of 1985 the incipient return of inflation was apparent" (Romero, 2002, p. 271). In February 1989 the government then announced the devaluation of the Austral, "initiating a period in which the value of the

dollar and prices soared at a dizzying rate and the economy spun out of control” (Romero, 2002. p. 289). This precipitated a new institutional and domestic crisis, characterised by looting and violence, and led to the early resignation of Alfonsín following elections that had been won by the Peronist Carlos Menem.

Thus between the end of the seventies and the end of the eighties the economy had followed a unilateral opening together with a hyper-liberal approach that did not have the capacity to control inflation or the exchange rate. In 1989 inflation was 4,923%, and GDP had shrunk by 1.5% since 1980 (Schirm, 2002). Furthermore, the combination of hyperinflation and institutional instability had brought about a clear process of de-industrialisation, which could be measured in terms of the value of manufactured products in total GDP. As Kosacoff has shown (1993, 2000), this value increased slowly until 1939, due to the progressive expansion of agriculture and cattle-farming, rose markedly during the period of import substitution, and then plummeted in the 1980s, returning the share of manufacturing to its 1940’s values. Alongside this there had been a decline in the investment/GDP ratio, a strong rise in unemployment, and a worsening of the income distribution during the period from 1976 (Nochteff and Abeles, 2000).

In this context the industrial apparatus had become deeply depressed; there was a progressive de-structuring of some of the sectors that had expanded during the phase of import substitution, with the growing macroeconomic uncertainty directly affecting the organisation of production. It has been argued, for example, that certain sectors tended to break up because institutional uncertainty and the expectation of price hikes forced up transaction costs and were not conducive to long term contracts (Donato, 1993; Kosacoff,

2000). The decline in such sectors saw a general shift towards informal activities and trade. Moreover, there was a consolidation of industrial specialisation based on intermediate goods such as petrochemicals, iron and steel (Kosacoff, 1993; Chudnovsky *et al.*, 1999). Firms operating in these sectors integrated vertically in order to reduce intermediate transactions to a minimum, and their production grew both in terms of volume and share of total industrial production (Bisang *et al.*, 1995). Indeed, they included the few cases of domestic industrial groups who were able to develop a transnational profile, establishing international alliances (Chudnovsky *et al.*, 1999).

III. THE WASHINGTON CONSENSUS PHASE

II.i Qualified Early Success

When Carlos Menem assumed power in July 1989, he had sufficient political consensus to propose a vast programme of structural reforms, marking the beginning of Argentina's 'Washington Consensus Phase'. The aim was "to make possible an appropriate insertion into the global economy" (Romero, 2002, pp. 285-6), and the chosen route was the general recipe of policies associated with the 'Washington consensus' (Williamson 1990, 1993; Taylor, 1997). It is important to note, however, the context in which this recipe was introduced. Argentina was in one of its periodic crises, characterised by what Romero (2002, pp. 285) describes as "a bankrupt state, the national currency in shambles, wages that did not meet basic necessities, and social violence." As suggested from the above analysis, associated with these crises was a historical record of development without appropriate industrialisation; a consistent failure to nurture a political environment and industrial structure that was conducive to balanced and stable economic development.

At the beginning of the Menem administration, in 1989, two major laws were passed: the Law of Economic Emergency and the Law of State Reform (Romero, 2002). Together, these authorised the privatisation of a long list of state-owned industrial assets, consolidated public debt and delineated an agreement by which services related to health, education and social assistance were transferred from the federal government to the provinces. This ambitious plan of structural and fiscal reforms was accompanied by a further opening of the economy, with a 10% reduction in import duties and, in many cases, their entire removal (Republica Argentina, 1992). However, Romero (2002, pp. 289-90) argues that “the government reduced tariff barriers, quotas, and import duties without uniform criteria”, and suggests that, in general, it “failed to attain stability during the administration’s first two years. Inflation remained high, and the big business groups, despite offering the government nominal support and even participating in the decision-making process, continued to handle their investments in accordance with their particular self-interests.”

Nevertheless, a vast deregulation of the Argentinian economy had been set in motion by 1991, when Domingo Felipe Cavallo was appointed as Minister for the Economy. He proposed a high impact and irreversible economic opening of the economy, which included the passing of the Convertibility Law in 1991, imposing parity between the peso and the dollar. This immediate policy response was augmented with a mid-term programme, for the period 1993-1995, involving highly-articulated sectoral interventions aimed at increasing competition (Republica Argentina, 1992). The core of the economic programme undertaken from 1989, however, was clearly based on the dual strategies of privatisation (and thus the dismantling of direct state intervention in the economy) and

peso-dollar convertibility. Moreover, this programme was seen as a rigorous application of the Washington consensus, and hence was supported by the IMF.

The approach apparently enjoyed considerable early success; in the period 1991/2-1993/4 the average annual growth rates (at 1986 prices) were 7.4% for GDP, 21.1% for gross investment, and 6.8% for exports (Nochteff and Abeles, 2000, table 1, p. 151). While Nochteff and Abeles (2000) note that the picture lost some of its brightness when considering the source of growth (mainly consumption), the behaviour of the external sector (a debt and imports led current account deficit and low trade economy), and the unemployment rate (rising throughout the growth), there was nevertheless a strong impression that Argentina was leading the way in successful economic reform. Indeed, so successful was it considered to be that Argentina became what Stiglitz (2002, p. 79) calls the “star student” of the IMF; it was the exemplar for Washington Consensus policies, in terms of both what to do and what success to expect.

III.ii Return to Crisis

From the mid-1990's, however, the weaknesses in Argentina's industrial structure, as reflected in Nochteff and Abeles' (2000) observations on imports, debt and unemployment during the years of success, returned to the fore. An economic policy based on unilateral opening and massive deregulation, alongside a fixed exchange rate, will expose any economy to the risk of competitive shock. We suggest that this shock hit particularly hard in the case of Argentina for two reasons. Firstly, as we have illustrated in the previous Section, Argentina had a long history of economic development characterised by political instability and a failure to nurture robust industrial foundations.

Hence at the time of the introduction of the reform programme the country possessed an industrial system with a very restricted productive base, a limited competitive sector and a wide range of small and medium-sized companies that were unable to keep up with international competition.

Secondly, the reform itself, in the context in which it took place, arguably exacerbated this deep-seated deficiency. A key aspect of the process of privatisation, for example, was the participation of large domestic economic groups allied to international operators, an outcome being the consolidation of these groups which had emerged in the eighties. They gained strength in basic sectors (oil, steel and chemicals) and public services (telecommunication, transport, water, gas and electricity) (Bisang *et. al.*, 1995), and were also better placed to enter the international arena, through key alliances and internationalisation strategies (Chudnovsky *et. al.*, 1999). Thus privatisation further concentrated an industrial system that was already very constrained, and assisted in developing an increasing detachment between large industrial groups with international linkages, and the rest of the domestic economy. Indeed, in 1997 the 18 major groups accounted for 96% of the total sales of the top 100 firms in Argentina, for 83% of those of the top 500 firms, and 81% of those of the top 1000 firms (*ibid.* p. 97). In employment terms, the same 18 groups accounted for almost 89% of all employment in the top 500 companies, and 86% in the top 1000 (*ibid.* p. 97). Such figures demonstrate strikingly how marginal the remaining Argentinian firms were, and the extent to which the industrial structure of the economy was unbalanced.

The first serious destabilisation of this fragile internal situation occurred in 1995 as a consequence of the devaluation of the Mexican currency. This shock was reflected in a brief return to negative growth but then a quick recovery in 1996 (Nochteff and Abeles, 2000), giving confidence to many regarding Argentina's star status in reform. Positive growth was short-lived, however, and a second wave of destabilisation came from the East Asian crisis. In July 1997 the Thai baht was heavily devalued, dragging down other currencies in the area until it hit Korea and then Japan, suddenly bursting the financial bubble that had driven up the oriental stock exchanges. Then, in August 1998, Russia declared a partial freeze of foreign debt repayments. At the end of the same year the crisis reached Latin America. To avoid the fall of the largest economy in the region, the IMF intervened with a large lending programme to Brazil. Brazil simultaneously devaluated its currency, whilst Argentina maintained an exchange rate tied to the dollar, which was strengthening against other currencies. Again, external events had demonstrated the fundamental fragility of the Argentinian economy, stimulating a severe recession that over the coming months would develop into the most recent crisis. Indeed, Romero (2002, p. 334) argues that by 1999 "no one could ignore the economic dead-end" that the country faced. By the start of the twenty-first century it was once more plagued by acute economic and political turmoil, with 40% of the population living below the poverty line by 2001 (Romero, 2002), resulting ultimately in civil unrest and near pariah status amongst the world's economies.

IV. FURTHER REFLECTIONS ON ARGENTINA'S MOST RECENT FAILURE

It is clear that since the late 1970s, and particularly during the 1990s, Argentina closely followed the neo-liberal path of privatisation, trade liberalisation and deregulation. As

argued in Chapter One, the conception and impact of Washington consensus policy prescriptions in general, and most notably structural adjustment, have been widely and heavily critiqued for many years (Cornea *et. al.*, 1987; Mosley *et. al.*, 1991; Cavanagh *et. al.*, 1994; Berg, 1995; Riddell, 1997; Rodrik, 1996; Dasgupta, 1998; Stiglitz, 1998a, 2002; Collier and Gunning, 1999; Biel, 2000; Van der Hoeven and Taylor, 2000). However, in the case of Argentina it is especially enlightening to consider the interaction between the impact of policies and the context in which they were implemented.

Our historical analysis suggests that a particularly important contextual factor is the country's fundamentally weak industrial structure, rooted in the nature of its economic and political development over the last 150 years. Argentinian economic development had its "original sin" in the conviction that it could successfully rely on the production of agricultural goods as the foundation for building an economy. Added to this was the emergence of an exclusively tertiary urban bourgeoisie, linked to trade, which complemented rather than challenged the agricultural oligarchy. Thus early development took place through pre-existing productive capacity for primary exports, leaving industrial activities marginalized both economically and politically, and little scope for development based on enhanced skills, technology and knowledge. The result, as we have seen, is an economy that is intrinsically weak and vulnerable to international crises. Moreover, emerging from the import substitution period was an industrial panorama of national companies of sub-optimal dimensions (Kosacoff, 1998), alongside small and very small firms limited to protected local markets. This was compounded by the emergence of a number of large family groups that, by the early 1990s, had come to

represent the core production body within the economy, with the rest of the system progressively disintegrating.

In this context, the introduction of Washington consensus policies had damaging effects. The privatisations of the 1990s served to increase the concentration of industrial activity in the hands of the core family groups, extending their presence to public service networks. The economy was split between a limited number of large groups and a large number of small manufacturing firms. The large groups were able to sustain the pressures of a rapidly opening economy because they were focused on a few basic goods and were also able to control public services not open to international competition, and often bearing monopoly rents. However, the small manufacturing firms were not in the same position. Moreover, the privatisations (and attraction of monopoly rents) were diverting internal capital that could have been invested productively in such firms. A natural consequence was their gradual disintegration and detachment from the rest of the economy (Kosacoff, 2000). Generally, the continuous increases in individual and collective efficiency required to respond to international competition were simply beyond the capacities of such a fragile and divided industrial structure.

In this sense the recent Argentinian crisis was neither unpredictable nor unexpected. Indeed, we suggest that the current structural problem in Argentina, as in many other underdeveloped countries, remains an industrial base that is too restricted to be able to create sufficient wealth to repay debt and activate a process of endogenous growth. It provides a context that is accordingly highly vulnerable to the Washington consensus policy package that was in fact implemented, even if not to the strict letter of its

principles.⁴ More generally, however, Argentina provides a spectacular illustration of a much wider problem regarding the failure of consensus policies to sufficiently account for the context in which they are introduced.

Indeed, as argued in Chapter One, much criticism of the World Bank and IMF has focussed on their seemingly singular policy prescription to countries with diverse political, cultural, social and economic circumstances (Platteau, 1994; Palast, 2002; Stiglitz, 2002). This runs counter to the observation of Moseley (1991, p. 242), from an analysis of early structural adjustment programmes, that “what immediately becomes clear is that the appropriateness of packages ... depends entirely on the stage of development which the recipient country has reached”. Moreover, it does not take into account the importance of social and moral norms (Platteau, 1994). Indeed, in the case of Argentina, Nochteff and Abeles (2000) suggest that the deregulation led to economic *and* social fragmentation. They note that the concentration of economic and political power has resulted, on the one hand, in abuses of dominant positions and extraordinary profits, and on the other in unemployment, poverty and increasing income inequality. In addition, it seems that the neo-liberal approach to (lack of) regulation in the Argentinean social, cultural and institutional context has nurtured a vacuum in which corruption and malpractice have flourished.

Pastor and Wise (2001, p. 72, emphasis added) argue that “Argentina’s experience has painfully shown that the trick is to make reform work in the *context* of political and social realities”. A historical analysis seems to support this suggestion. Moreover, an important

⁴ Romero (2002, p. 288) refers to the “careless” privatisations “at odds with other declared objectives, such as encouraging competition.”

implication of our reflections is that a successful path for Argentina does not, therefore, simply rest on solutions to macroeconomic dilemmas. At best, monetary and fiscal policies alone will lead again to what Nochteff and Abeles (2000, p. 137) describe as a “shock without vision”, where “short term profits and growth (the bubble) replaced (and displaced) long-term development and systemic competitiveness”. Whilst solutions to (some) macroeconomic problems are undoubtedly essential in the short, medium and long term, they alone cannot deliver economic success. Argentina’s real dilemma is to find ways of creating a new industrial structure, a conclusion that is in stark contrast to the obsessions and focus of most of the recent debate.⁵

V. A CHANGE IN APPROACH TO ECONOMIC DEVELOPMENT

V.i A Return to Theories of the Firm and Development

A country in crisis needs to identify immediate and practical measures that might offer improvement, and such concerns are our subject in this Section. To begin to explore ways forward – for Argentina and elsewhere – we return to economic theory, specifically to the analysis of the first two Chapters of this thesis. Given the need to create a robust industrial structure, capable of fulfilling long-term development aims, we suggest that it is appropriate to begin with the theory of the firm. The basis of an industrial structure is firms, and the context and environment in which they are able to operate is likely to be a key determinant of their performance and ability to compete, both domestically and internationally.

⁵ Even where current debate concentrates on the shortcomings of the political elite, for example, the typical focus is their mismanagement of the macro economy.

Most mainstream theory of the firm is rooted in an interpretation of Coase (1937) that focuses on the firm as an alternative to market exchange. This is seen, for example, in the development of ‘transaction cost economics’ (Williamson, 1975, 1985, 1986) and of ‘internalisation’ approaches to the analysis of transnational firms (Buckley and Casson, 1976; Dunning, 1977; McManus, 1972; Rugman, 1980, 1981). However, as explored in Chapter Two, an alternative interpretation of Coase (1937) roots analysis in the *nature* rather than *type* of exchange, leading to different implications for the definition of the firm and its impact (Cowling and Sugden, 1987, 1994, 1998), as well as for economic development. Drawing on Zeitlin’s (1974) observations on corporate governance and control, this alternative emphasises the importance of ‘strategic decision-making’ for efficiency, and highlights the possibility of ‘strategic failure’.

In Chapter Two we fused this strategic decision-making approach to the theory of the firm with an analysis of development theory. We argued that if development is defined in terms of the aims and objectives of those seeking to develop, then democratic engagement in decision-making within and across firms and other institutions is a central requirement. This is something that we have suggested is missing from the ‘Washington consensus’ approach to development, which we have argued is characterised by elite decision-making and strategic failure.

Following this line of argument, we can draw guidance for potential ways forward for Argentina. As we have seen, the country has experienced governance by exclusive interests and it has undoubtedly suffered inefficiencies. Not least in significance, it has experienced being the exemplar of ‘Washington consensus’ requirements. There has

been short-termism in decision-making and an absence of vision. Moreover, this has sat within an industrial structure that is highly fragmented; there being an almost complete detachment between a handful of large, transnational firms and the rest of the economy. A strategic decision-making approach suggests that development of an industrial structure capable of meeting the long-term development aims of the people of Argentina will necessitate an addressing of this fragmentation.

Building a truly democratic economy in Argentina, in the sense that has been theoretically argued as desirable throughout this thesis, represents a challenge that will undoubtedly necessitate greater depth of theoretical and empirical exploration than can feasibly be undertaken here. Moreover, as we have suggested and revealed, particularly through the case study of the Second *L'institute*-Milwaukee Workshop, learning is central to such a challenge. This necessitates a long-run process, both of practice and of research. However, it is also important to bear in mind the pressing need to identify, from the analysis thus far, some immediate and practical steps forward for a country whose communities are *today* still suffering the consequences of recent crisis.

With this in mind, we advocate an immediate focus on the possibility of new and innovative approaches to co-operation between the different actors in an economy; particularly, though not exclusively, alterations in the *ability* and *willingness* of firms to co-operate. We suggest that changing attitudes to co-operation among people and firms has the potential to uncover new ways of doing things. It is a starting point from which localities might realise inclusive paths for entering the global economy, creating a context

from which long-term prosperity in the interests of all Argentinians can be built democratically.

V.ii Strengthening the Industrial Structure: Changes in Co-operation

All economies are based on co-operation of one sort or another, but the precise sort is a fundamental concern. An industrial structure nurtured according to the strategic decision-making approach requires that actors learn to participate in a democratic economic process. While still in the course of uncovering exactly what this would entail, the emerging analysis, as explored in previous Chapters, unambiguously points to a process founded on mutual respect and benefit, on discussion, debate and reason-giving in the public domain, and on accountability to all interested parties in the production process. In Argentina, existing and long-standing forms of co-operation are apparently inconsistent with these requirements and it is for that reason that there is an argument for review and change.

Consideration of the country's history leaves the clear impression that economic and political behaviour has often been based on short-run, narrow personal gain, pursued in what one local commentator has described as systematic political patronage and entrenched mafias, corruption, cronyism and nepotism.⁶ This characterisation is consistent with the charge of elitism in governance. Examples of the approach can be found in many of the economic and political decisions taken in recent years, and it is reflected in what Romero (2002. p.308) refers to as the “dizzying pace” of increased

⁶ See ‘Unsplendid Isolation’, *Buenos Aires Herald*, April 4th 2002. See also ‘Like a Rolling Stone’, *Buenos Aires Herald*, January 9th 2002: “Duhalde’s new model – with its emphasis on close co-operation between the government and the production sector – has raised the spectre of a return to Argentina’s protectionist past.”

corruption in the 1990s.⁷ While the pursuit of narrow short-term gain clearly brings benefits to some, it is not sustainable if an economy wishes to pursue longer-term and wider prosperity.

It is perhaps not feasible to see changes in ability and willingness to co-operate as a route towards a successful economy for Argentina as a whole, in the short run. Indeed, addressing such possibilities at a national level is an especially onerous task. However, it is feasible for at least areas of the country, most especially those where there are histories and realities that provide the roots for new forms of co-operation. For example, an interesting response to the recent crisis was the formation of neighbourhood assemblies, born out of frustration with existing political processes. These *asambleas populares* focussed on economic, political and social issues. They are said to have had no hierarchy, and to have used websites to demonstrate their activities and invite new participants. Although the outcomes and longevity of aspects of such developments are unclear,⁸ perhaps they are innovations that provide partial foundations for a new economic structure founded on different forms of co-operation.

A related possibility is that localities within Argentina *learn* from elements of experiences elsewhere. In the US, for instance, an ethos of teamwork is reflected in various aspects of society; for example, in a sense of common identity that is evident in its States, cities and towns. To cite one case, consider experience in Wisconsin, as analysed in Chapter Six. Recent workshops and summits focusing on economic development demonstrate a

⁷ It is also seen in the experience of *L'institute* (see Chapter Six); despite strenuous efforts to establish links in Argentina over a seven year period, permanent and lasting relationships have until now always foundered (in part) on a seeming narrow willingness to take but not to give.

striking desire by business and other leaders to engage with each other, and broader groups, in forging new ways to make Wisconsin 'competitive'. Some in the State have been worried about the possibly excessive and undesirable influence of certain large firms, which are typically in a powerful position in a US-type system. Furthermore, in seeking fresh ways forward it is especially interesting that Wisconsin has shown concern with smaller firms and some recognition that their success calls for co-operation, trust and loyalty *across and not only within* organisations.

In this regard, the types of economic behaviour that may be found in certain clusters of small firms seem particularly interesting, an argument that was explored in the previous Chapter. The attention that 'clusters' have received in recent years has been prompted by positive experiences in various parts of the world. Many clusters have been characterised by successful exporting, and have been based upon an innovation and dynamism that has given them resilience and growth over a sustained period (Pyke and Sengenberger, 1990; Schmitz and Musyck, 1994). In particular, progress in many successful clusters seems to have been based on a sophisticated awareness that local economies are characterised by many interested parties, that each has its own objectives, but that attainment of any one objective is tied into the simultaneous attainment of others. In this respect, a key feature has often been the existence of purposeful joint action and forms of co-operation across firms (Schmitz, 1995), creating a potent mixture of co-operation and competition. The evidence is that within certain clusters smaller firm success can be based on appropriate networks to introduce new products and processes, to train labour and provide new skills, to market and distribute products. Appropriate co-operation can enable smaller firms to

⁸ See, for example, 'One Giant Leap for Citizenship?', *Buenos Aires Herald*, March 24th 2002, and 'Revolt of the Wronged', *The Guardian*, March 28th 2002.

overcome their shortcomings in terms of scale and confinement to local, protected markets, outcomes that we identify as having been absent in Argentina.

These experiences suggest the need for people within Argentina, especially actual and potential participants in smaller firms (including potential entrepreneurs), to alter their behaviour based on a discriminating understanding of the options that they face. We do not advocate a mimicking of either US-style capitalism or the cases of industrial districts in, for example, Italy. It is clear that these experiences do not correspond to a vision of co-operation leading to the type of widespread democratic participation in strategic decision-making that theory suggests is necessary for socially efficient long-term development. However, there is much to be learnt from such cases. Not least, that widespread and appropriate participation based upon mutual respect, responsibility and trust has the potential to yield dramatically different outcomes to those that we evidence have been experienced by Argentina throughout its history.

V.iii Immediate, Practical Steps

To identify the very first measures that might be introduced, we can return to one of the experiences highlighted in Chapter Three. Consider, for example, the way in which Ocotal, a small city in Nicaragua, attempted to tackle its development problems. Rocha (1999) reports that a series of round-table discussions were initiated to address specific but related issues: the economy, the environment, tourism as an employment generator, social and urban planning, and social factors. The aim was to involve local citizens in planning for their development, and the forums enabled a range of different views and ideas to be heard. Most practically, they helped to engender a process of co-operation

that was later invaluable in the aftermath of Hurricane Mitch; during the emergency itself people working together in their neighbourhoods played a vital role, and as the immediate crisis dissipated co-operation was central to the re-building process.

In Argentina, an early step in confronting economic deficiencies could be the establishment of inter-related forums in particular suburbs, towns or villages. Localities could organise their own economic round-tables to analyse and consider the possibilities. There might also be forums in particular communities and in particular industries. Economic problems could then be debated and ideas exchanged. Local firms, both small and large, would clearly be central participants in the debate. They might seek co-operation and ideas that would further their ambitions to develop new export markets; for instance, through creating common quality standards, branding or sales outlets. Similar end-points have been achieved by marble producers in Greece, for example (Pseiridis, 2002).

However, we suggest that the networking process must also extend beyond firms to incorporate residents, schools, universities and other interest groups. A healthy and vibrant local economy is in the interests of everyone that lives, produces and works in that locality, and there may be ideas and capabilities hidden in the most unlikely of quarters. The aim of this process would be in part to secure immediate changes. It might identify production bottlenecks that can be solved together, perhaps through joint research and development or perhaps through the provision of joint training with local educational institutions. However, the goal would also be to engender new co-operation, to alter

attitudes and build a framework that over time would lead to inclusive governance, an innovative fusion of co-operative and competitive relationships.

Lessons in co-operation across different groups can also have apparently unlikely sources, such as the process of reconciliation in South Africa following the atrocities of apartheid. The post-1994 era in that country has been defined by a strong desire to communicate in seeking to heal the wounds of the past; for all groups to join together in forging a new and prosperous 'rainbow nation'. While Nelson Mandela's example has driven this monumental process, his influence has been built on a fundamental concern with co-operation. South Africans have been encouraged to look to themselves and to each other to build a new South Africa, and local and national arenas, such as the truth and reconciliation commission, have played a central role in enabling the development of this process. While again not suggesting a mimicking of experience that is grounded in a specific and unique context, immediate ways forward for localities within Argentina might have related beginnings. What is called for is a learning process in establishing new and effective forms of co-operation around which a strong, resilient and democratically rooted industrial structure might be built.

In line with Chapter Three, this can be seen as a dual approach to development. It involves constructing new relationships and co-operating to build development strategy at a local level, while working within the macroeconomic framework determined nationally and internationally. However, we do not suggest that localities within Argentina should be isolated in this process. Through sharing experiences and co-operating over solutions with others, both at home and abroad, there are opportunities for mutual benefit. Indeed,

following much of our earlier analysis it seems clear that an ethos of co-operation could be built across as well as within localities. There is scope, for example, to act with other localities in certain aspects of production; for firms in one place to co-operate with firms from elsewhere, producing and selling together (Sugden, 1997; Cowling and Sugden, 1999). Indeed, it is on this basis that localities in other parts of the world might contribute to Argentina's development, and *vice versa*. More generally, new forms of multinational, or 'multilocal' co-operation might be instrumental in uncovering appropriate responses to development problems across the world, exploring the feasibility of different, democratic forms of 'globalisation' as analysed in Chapter Four.

VI. CONCLUSIONS

In this final Chapter we have pursued a historical analysis of Argentinian economic development, with the aim of commenting on the crisis and identifying appropriate ways forward that are rooted in the central theoretical argument of the thesis. We have illustrated the historical failure within Argentina to build a political and economic environment that is conducive to long-term economic development. Specifically, the "original sin" of modernisation without industrialisation has never been sufficiently addressed, and the economy remains characterised by a narrow and fragmented microeconomic industrial structure that is lacking in the range of skills and knowledge required for sustainable development. It is in this context that Washington consensus policies were introduced in the early 1990s, the ultimate results of which can be seen in Argentina's remarkable transition from 'star pupil' to a country in deep crisis.

Building on the analysis of previous Chapters, we have highlighted the importance of changing attitudes to co-operation in building an industrial structure capable of fulfilling the development aspirations of localities within Argentina. We have explored some initial practical steps that might be taken at the local level in seeking to alter attitudes to co-operation, and in doing so move towards a fundamentally different approach to economic development. However, it is clear that these are only starting points; suggestions that arise from the analysis thus far. A greater understanding of the requirements for introducing effective democracy in strategic decision-making is a long-run challenge, necessitating ongoing theoretical and empirical investigation, something that we will return to in the Conclusions to this Thesis. What is certain, however, is that the approach advocated here is not a challenge for localities in isolation. A framework is needed that is capable of facilitating a new approach to economic co-operation at the international level. This presents a significant multinational challenge.

CONCLUSIONS

STRATEGIC DECISION-MAKING IN DEVELOPMENT THEORY AND PRACTICE: A LEARNING APPROACH TO DEMOCRATIC DEVELOPMENT

CONCLUSIONS

I. CONCLUDING SUMMARY

The context and motivation for this thesis have been provided by an appreciation of the ‘crisis’ which we have argued characterises development theory and practice at this juncture. At present, many people across the world are clearly disillusioned with ‘development’ as it is currently framed. Discontent is noticeable in both ‘developed’ and ‘less developed’ parts of the world, and ranges from resigned apathy to outright hostility towards development policies and outcomes, and towards those that are perceived to have influence over them. Whereas previous hostility had been largely confined to protests in the ‘less developed’ world, recently this has changed, and there has been a spate of protests in the ‘developed’ world, targeting the transnational firms, national governments and international institutions that appear to be driving what is popularly termed ‘globalisation’. At the heart of these concerns is discontent with what is seen to be a fairly relentless pursuit of global free markets, clearly benefiting some, but simultaneously associated with apparent rising economic inequality and an eroding of cultural, social and other human values. It is discontent with the development policies and outcomes of what is termed the ‘Washington consensus’, a set of policies that has become and remained dominant over the last twenty years, and whose hegemonic influence has stifled the scope for exploring theoretical and practical alternatives.

The main contribution of the thesis is twofold. Firstly, this ‘crisis’ has been analysed through the development of an alternative theoretical perspective that has its roots in the strategic decision-making approach to the theory of the firm (Cowling and Sugden, 1987,

1994, 1998), and that provides a conceptual framework for bringing together diverse and seemingly polar views on the development impacts of globalisation. Secondly, the framework has been advanced and applied through the exploration of specific issues and cases, providing a strong foundation for further research into the implications and practicalities of a theoretical concern with the governance of development.

In Part One, entitled ‘Development and Strategic Decision-Making: A Conceptual Framework’, we developed the theoretical argument of the thesis, rooting this in appropriate literatures.

We argued that there is a ‘crisis in development’ that is not close to being fundamentally addressed, despite recent recognition of policy weaknesses at the heart of the Washington consensus. Following a discussion of potential explanations for the ‘crisis’, we outlined a thesis based on exclusion from governance, leading to an alternative conceptual framework from which development can be analysed. Central is the argument that ‘development’ *by definition* should be seen in terms of the aims of those seeking it; development will continue to fail people until decision-making structures are altered to reflect the views of those it aims to assist. An implication is that fundamental concern should be afforded to how decisions are made in identifying aims and objectives, and then in moving towards them, an idea that is strongly related to the strategic decision-making approach to the theory of the firm. We demonstrated that development theory, policy and practice in recent history indicate a misalignment of decision and effect in this regard. Strategic decisions concerning development are usually made, or heavily influenced, by ‘elite groups’. There is not input from all, even any, of those within the localities that are

seeking to develop. The result is 'strategic failure' in development, and the perpetuation of patterns of uneven development.

We then built from our alternative conceptual framework to suggest a way forward; an approach that centres on engagement, and on learning to be democratic within the economic and social processes that underlie development. This could take the form of a 'dual approach', working in the shadow of the Washington consensus, but seeking to gradually address the exclusion that today characterises development processes. Using examples, we highlighted the importance of both local and national policy in such an approach. Crucial, however, is that localities are not seen as isolated in their development. Indeed, fundamental to the suggested approach is the need to develop alternative forms of multinationalism that are capable of remaining rooted in their constituent local aims and objectives.

To conclude Part One of the thesis, we focussed our theoretical analysis on an understanding of the much contested theme of 'globalisation'. We offered a conceptualisation that distinguishes between 'elite' and 'democratic' globalisation, providing an analytical meeting-ground for the seemingly polar analyses of the impacts of globalisation that abound in the popular literature. At the same time, we developed further our theoretical analysis of a 'learning approach', raising the prospect of a virtuous circle of 'learning to govern', and we specifically addressed the issue of territory, depicting a layered approach to 'locality' that centres on multi-locational networking. Such a conceptualisation enables analysis of the possibility of democratic as opposed to elite forms of globalisation, although we suggest that meeting this challenge raises a

number of significant questions. For example: how do we prevent the hijacking of decision-making by powerful elites?; how do we ensure communication processes that are conducive to democratic engagement?; what type of learning processes enable people to engage most effectively in democratic governance?; what form should democratic multilocal/multinational interaction take? Each of these highlights the inherent multidisciplinary nature of the study of development, and signals the importance of analysis that is capable of truly fusing, rather than simply spanning, different disciplines.

In Part Two, entitled ‘Towards a Learning Approach to Democratic Development: Further Issues, Cases and Applications’, we explored in detail four specific applications of the theoretical analysis contained in Part One. Rather than proposing a holistic answer to the challenge of ensuring democratic development, we undertook the more realistic task of beginning to answer some of the questions posed by Part One through highlighting certain key issues and cases, thus deepening our understanding, and exploring some small steps that might lead to appropriate ways forward.

Firstly we analysed the importance of communication for the governance of development. We argued that because the art of communication is central to the art of democracy, it is fundamental to development. Moreover, freedom and the ability to participate fully in economic governance would reflect and be reflected by a parallel freedom and ability in communication. We explored this argument in detail, through analysis of art in Britain in the 1980s and 1990s, and analysis of the more general influence of transnational corporations within educational establishments and the media. We found that there exists significant actual and potential distortion of communication in modern ‘free’ market

economies, presenting significant barriers to the attainment of democratic globalisation. In particular, we argued that current communication industries do not facilitate the open, free deliberation and debate that is necessary if people are to be ‘sovereign’ in all of their dimensions, and not simply as consumers. Moreover, while new information and communication technologies (ICTs) offer potential to change this situation, we suggested that significant barriers are presented by non-universality of access, filter mechanisms that might reduce deliberation and open debate, explicit censorship and control, and an overall governance of the system that is not naturally democratic. There are hence significant dangers of which to be aware in embracing new ICTs.

Our second application was a case study of the type of learning approach to multinational engagement that the theoretical analysis suggests is important. We introduced *L’institute*, a multinational focal point for research and learning in industrial development and public policy. Specifically, we analysed the 2001 *L’institute-Milwaukee Workshop*, which aimed both to facilitate multinational research relationships among scholars, and to become part of the local development process in a specific locality. We found that while the Workshop was largely successful in meeting the first aim, it encountered a number of difficulties in achieving the second. Particularly important were the emergence of sensitivities surrounding the roles of ‘insiders’ and ‘outsiders’, and an insufficient prior understanding of the economic, social and institutional context of the locality. Both meant that the extent to which an international group of academics was able to engage with local development processes was seriously limited. However, in pursuing an analysis of activities since this event, we showed how many of the lessons learned have been built upon, with significant success. Indeed, this learning process has led to a much

improved understanding of the possibilities and requirements for democratic engagement by academics in local economic development processes in a multinational context.

We then pursued further one issue highlighted by this case, considering ‘clusters’ from the theoretical perspective developed in Part One. Clusters are frequently seen as an ‘engine’ for local economic development, and we focussed on their role in facilitating processes of employment generation that might enhance the governance of development, potentially providing an alternative to Washington consensus approaches. However, while there is clearly significant variation in clusters, there has been little explicit analysis of their governance. We argued that this constituted a weakness in the analysis of the impact of clusters on economic development, and is particularly worrying given their increasing popularity as a policy tool. In response, we outlined a governance-centred methodological framework, within which specific clusters might be analysed.

Our final application was to consider the specific case of economic development in Argentina. We pursued a historical analysis of Argentinean development, and used our theoretical underpinnings to support an alternative perspective on the recent crisis. In particular, we highlighted the historical failure to build a political and economic environment conducive to long-term development, pointing to an economy that remains characterised by a narrow and fragmented microeconomic industrial structure. The introduction of Washington consensus policies in this context was damaging, Argentina moving rapidly from ‘star pupil’ of the IMF to deep crisis. Rooted in the previous analysis, we highlighted the importance of changing attitudes to co-operation in building

an industrial structure capable of fulfilling local development aspirations, and explored some initial practical steps as potential local starting points.

II. ONGOING ANALYSIS AND FUTURE RESEARCH POSSIBILITIES

Each of the contributions within Part Two of the thesis takes the theoretical analysis of Part One forward in a specific context. It is clear, however, that each represents an application where there is significant scope for further exploration, in particular for integrating analysis from different disciplines. A greater understanding of the requirements for effective democracy in development decision-making is a long-run multidisciplinary challenge, necessitating ongoing theoretical and empirical investigation. In this final Section we point to some analysis that is already underway, extending the work presented in this thesis, and to some unanswered issues and questions where future research might be desirable.

The analysis of the activities of *L'institute* is one area where further research is currently ongoing. As discussed in Chapter Six, there are a range of current activities, including workshops and research projects, which are taking forwards the learning process that was described around the 2001 *L'institute-Milwaukee Workshop*. Each of these activities is infused with a process of reflection, and they epitomise the notion of a long-run learning process of multilocal democratic engagement. For example, perhaps most significant are the institutional developments associated with the application to the European Commission for a Marie Curie Research Training Network. These were briefly described in Chapter Six, and are currently the subject of a more detailed consideration of

aspects of international networking in business education (Bailey *et al.*, 2004), reflection and analysis that will guide and inform future developments.

Chapter Seven also hinted at ongoing research in the analysis of clusters. The methodological framework set out in Chapter Seven has been adopted in a pilot case study of clusters in Wisconsin, and a first set of interviews has recently taken place with opinion leaders from the business, policy and academic communities in the State. The scope for utilising this methodology in undertaking comparative case studies presents a significant avenue for future research; for developing a governance-centred analysis and categorisation of different forms of clustering and their impacts. Moreover, the ongoing research in Wisconsin, for example, feeds into the wider *L'institute* research project on *The Importance of Clusters to Urban and Regional Prosperity in a Globalised Economy*. Through planned workshops and collective publications, this provides a strong basis for future comparative, multinational and multidisciplinary research into the different impacts of clusters on local development.

Specific country and/or local cases more generally also provide interesting paths for further research, enabling a deepening of our understanding through the consideration of different contexts and experiences of engagement in development. We introduced in Chapter Eight the case of the Argentinean economic crisis, and concluded with an identification of some immediate practical steps that our theoretical analysis suggests might be appropriate for localities within Argentina. More detailed research is currently ongoing through a project entitled *Co-operation in Production and the Foundations for a New Industrial Structure in Argentina: an Analysis of Cases*, and, within this, a specific

project on rural development in the Balcarce District.¹ Through an analysis of such specific cases, utilising a methodological framework related to that set out in Chapter Seven, there is great potential for moving towards answers to some of the questions surrounding the feasibility and requirements of democratic engagement in development that are raised by our theoretical analysis.

In terms of more specific issues where further research appears desirable, we can identify a number of areas. Firstly, the thesis raises issues around our understanding of democracy. We have presented a theoretical argument that has its roots in the economic literature on development and on the theory of the firm. From these roots, it identifies the centrality of governance in realising efficient, meaningful development, and hence points to the importance of ensuring *democratic* development processes. The analysis of democracy itself, however, is an issue that is explored within many other disciplines, not least political science. Indeed, it is clear that a fuller understanding of the implications and practicalities of our arguments surrounding ‘economic democracy’ requires a more fundamental conceptual analysis of democracy more broadly, integrating contributions from other disciplines. Moreover, and related to this, we suggest that there is a need to theoretically clarify the implications of our arguments for concepts such as ‘freedom’ and ‘competitiveness’ that are commonly, but often loosely, used in the economics literature.

Secondly, the rooting of our analysis in the concept of ‘locality’, as set out especially in Chapter Four, raises a range of questions surrounding the mobility of people. Locality is defined as a geographical area characterised by certain common institutions, practices and identity, and by the relationships that these foster between actors. The consideration of

¹ See www.linstitute.org/rprojects/ for more information.

‘layers’ of locality makes this conceptualisation very flexible. However, our analysis does not explicitly address the governance implications of flows of people between localities over time (immigration and emigration). We might broadly suggest the need for respect from all concerned in a locality’s development in recognising the potentially different rights and responsibilities that might be considered appropriate for different groups when determining local development objectives. However, there is clearly an avenue for detailed research into the specific practicalities of democratic engagement with regards the mobility of people.

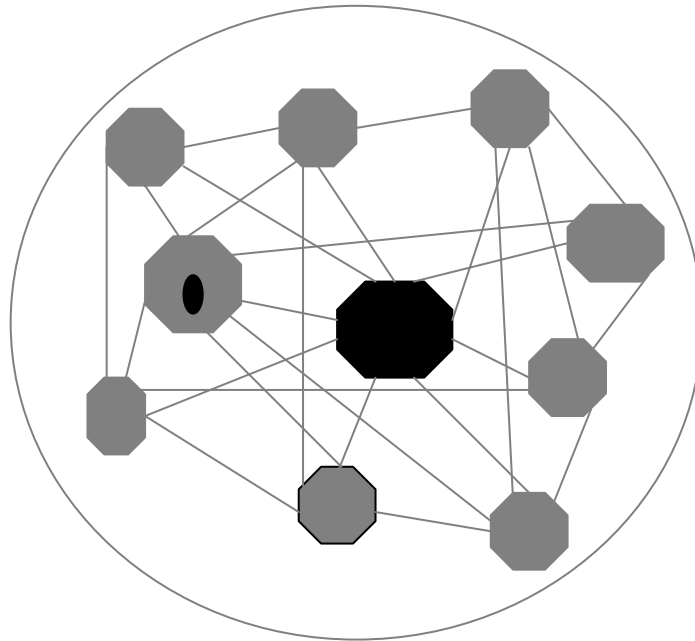
A third avenue for future research is opened up by Chapter Five, which highlighted some worrying trends in communication processes. Given the argued centrality of communication to development, further empirical investigation into the governance of communication industries is likely to be important. This might be undertaken through more specific case analyses, for example comparative studies of the media industries in the UK (where the BBC plays an important but contested role), and Eastern European countries (where there has been a rapid, and potentially interesting, change in media ownership, ‘freedom’, and governance). An aim of such research would be to determine the extent to which particular channels of communication serve democratic debate and deliberation, or are distorted by elite interests, and the particular factors that influence these outcomes.

Finally, we return to the importance of continued contextual case analysis to deepen our understanding of the feasibility and requirements of the dual approach to development suggested in Part One. We have pointed to ongoing research in terms of multinational

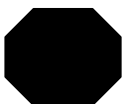
academic engagement, clusters, and the case of Argentina. However, other potentially interesting cases abound. Switzerland, for example, has a democratic system based around multiple referenda over key issues within its constituent ‘cantons’. How does this relate, in theory and practice, to our suggested path of democratic engagement in development? South Africa underwent a dramatic change in its democracy and economy following the breakdown of apartheid in 1994, and has a new constitution which enshrines the importance of participation from all corners of South Africa’s many communities. How is this working in practice, and what have been the impacts on real development outcomes? An application of our theoretical analysis to these and other cases opens the way to learning from the many diverse experiences in development across the world, to breaking free from the stifling confines of the Washington consensus, and to exploring real ways forward for development policy and practice.

APPENDIX A

Localities and Linkages within a City: Intertwined Layers



A within city locality characterised by common and evolving organisations and institutions, and the relationships these foster between actors.



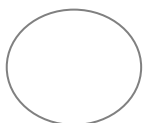
The centre of the city, a special locality because it is used by and thus concerns all of the others.



Specific localities that are particularly important to all others, perhaps because they are the location for a large firm or an especially important institution, such as a university.



Links between localities, thus decision-making channels for broader notions of locality.



The geographical confines of a city, encompassing the broadest notion of locality that is possible *within* a city (and given that localities exist beyond cities).

APPENDIX B

Guiding Principles for *L'institute**

The following are a set of principles drawn-up by participants in *L'institute*, and intended as a guide for current and future engagement.

- *L'institute* is concerned primarily with research and learning in the field of industrial economic development and public policy. However, a central view is that this concern should not be isolated from social, cultural, political and other processes. Correspondingly, a key principle of *L'institute*'s activities is that they aim to fuse research and learning on economic development with wider social, cultural and political concerns. This is envisaged as a multidisciplinary approach. It is not merely working within disciplines, communicating with others in different disciplines, but it entails an integration of approaches to traditional problems, thereby forging new perspectives.
- *L'institute* is fundamentally about people, and the relationships that they foster in their pursuit of research and learning activities. This is facilitated through deliberate attempts to blend the social and the academic.
- *L'institute* is based on the broad principles of inclusiveness and democracy. In other words, on a collective and co-operative approach to learning and research.
- A key aim of *L'institute* is the diffusion of ideas, ways of thinking and knowledge. This process is especially valuable when it is rooted in and takes place across localities, nations, and generations, so as to incorporate and fuse as many different perspectives and ideas as possible.
- *L'institute* aims to pursue activities that allow it to become part of the process of development in specific localities. It seeks to be actively engaged and embedded in policy debates, contributing multinational experience and expertise, but doing so on the terms of the particular localities. This is intended as a process of mutual learning which has the potential to enrich all of those involved.
- Especially important to *L'institute* achieving its aims is the key role played by young researchers and doctoral students. They can help to carry *L'institute*'s activities, principles and vision forward, not least through the institutions and localities in which they will interact in their future careers.

* These articles are presented as a constantly evolving document, changing as a consequence of new experiences and as a result of agreement amongst *L'institute* participants. This version was last updated on 10th July 2002, and future versions can be found at www.linstitute.org/about/principles.html.

- A practical implication of the above-mentioned principles is the operation of *L'institute*, which aims to have a flat and non-hierarchical organisational structure. In this vein, *L'institute* is about freedom to do, the ability to act within a broad framework without onerous constraint from others.
- *L'institute* is a multinational institution that is operated democratically by participants based in partner universities and elsewhere. Its officers are accountable to the participants and to the partner universities. Whilst the partners have formal control of *L'institute*, there is a commitment from the participants that its strategic direction be determined democratically.
- *L'institute* actively encourages and nurtures personal and institutional involvement beyond its current partners. It welcomes expressions of interest and suggestions for participation.
- Rather than being focused on the furtherance of any one partner in isolation, each of *L'institute's* activities is directed to the mutual benefit of each and every participating individual and institution, on the basis that a collective and co-operative approach can yield unique, desirable outcomes.
- *L'institute's* aim is not to generate profit. Likewise, its aim is not the creation of power, islands of power or prestige for those with whom it is associated. The expectation is that participants pursue their own interests, each gaining from their involvement, and that they do so sharing information and knowledge whilst showing integrity and respect for their peers.

APPENDIX C

Initial Questions for Participants at the Second *L'institute*-Milwaukee Workshop^{*}

- **What are the distinguishing features of the new economy, and how might these be managed to ensure urban and regional prosperity?** For Nichols (2000), the distinguishing feature is the role and nature of information, including information technology, industrial technology and branding, although some might argue that there are other characteristics that need to be highlighted. Nichols argues that information technology costs are rising as a share of total manufacturing costs, that information is the key component of value added and that the way information is handled is fundamental to the generation of wealth. However, what is the evidence for the significance of information, including information technology costs? How will information technology change the supply chain and distribution channels? What will be the impact of peer-to-peer (P2P) technology, not least on how firms might co-operate with each other and with customers? Is information the key, or is it really knowledge and learning? What would information, knowledge and learning requirements imply for workforce development, and correspondingly for needs in education and training?
- **Even if the new economy raises fresh issues, are there 'old' concerns that remain critical and that necessitate attention?** One view is that, in any economy, the determination of production strategy is the key issue; the ability to make the strategic decisions is fundamental to welfare. In fact, by definition, to make the strategic decisions is to determine the aims of production; to explore the aims raises fundamental questions about the desires of the people of a region, fundamental questions about what is meant by the term 'prosperity'. The significance of strategy can also be illustrated by the 'hollowing out' problems that were faced by Wisconsin and elsewhere in the 1980s. Strategic decisions were made within firms to locate manufacturing activity outside of the older industrialised areas. What are the implications for different models of strategic decision making for the new economy? Is hollowing out still an issue? Does the conduct of firms headquartered outside a region (or, more generally, without a clear commitment to a particular region) raise questions about future prosperity? Another long-running concern in the old economy has been the gains that might be had from mixing and balancing various types of organisation and activity. For example, public and private enterprises; non-government and government, local, national and supranational public bodies; manufacturing and service enterprises. To what extent do these remain key issues for urban and regional prosperity in the twenty-first century, and to what extent does the new economy face new problems in these respects? Does urban and regional prosperity depend upon manufacturing success? Put differently, must localities and regions stimulate export-producing industries to prosper? Is it wise for a region to focus on a particular sector(s) and, if so, how should the sector(s) be chosen? Nichols (2000) advocates that Wisconsin focuses on the machinery sector because it has a

^{*} These questions were drafted by the organisers of the Workshop, in particular Rita Cheng, Susan Donohue, William Holahan, Richard Meadows, James Peoples and Roger Sugden.

long and successful tradition in this industry, and because nationally the industry has concentrated in the State. Is national concentration in the past a key issue for today and the future, and does concentration matter at all? (See the Chapter by James Peoples on concentration in the US.) Further, if selected sectors are chosen, how do we ensure that the required labour force is available? Associated with this, does manufacturing in certain sectors of the new economy leave a place for skilled craft-work (as Nichols suggests it does)? If so, how does that impact on workforce development?

- **Does a locality's relationship and linkage to the wider world, both to different parts of the same country and to different countries, have an impact on urban and regional prosperity, and if so how might this impact be influenced?** Nichols (2000) focuses on the maximisation of value added in a region's manufacturing, and emphasises links through international trade (especially manufacturing exports) and through global financial markets (as a determinant of general economic conditions and thus of industrial development). Is it appropriate (also) to focus on relationships and linkages other than trade and finance? For example, are relationships based on the accumulation of knowledge and learning opportunities especially important? Nichols suggests that there might be links between Wisconsin and Silicon Valley to develop leading-edge information technology for the machinery sector. This prompts the possibility of other such links around the world, all as part of an attempt to maximise value added from manufacturing in a particular region. It also points to the need for a workforce with certain sorts of skills and attributes, which therefore has implications for the availability of appropriate education and training opportunities.
- **Is the presence of clusters, agglomerations and/or networks crucial for urban and regional prosperity and, if so, how might beneficial outcomes be stimulated?** One of the most prominent concerns of researchers in industrial economic and business development over recent years has been the grouping of enterprises and organisations, and the relationships within these groupings. Nichols (2000), for example, refers to the 1990s "transformation of the old Midwest manufacturing economy from a group of loosely connected factories into a tightly integrated network of quality-conscious, customer-driven managerial teams." He goes on to emphasise the creation of particular sorts of network, supply chains, as critical to Wisconsin's success: "whole new industries of supply chain management have emerged, led by the trucking firms who specialise in minimising the costs of co-ordinating production activities over great distances." What characteristics of clusters, agglomerations and/or networks are required for urban and regional prosperity? Is networking a way to reduce production costs? What form(s) of the supply chain is required? How is networking best served by P2P technology? What are the generally applicable lessons to be taken from an understanding of the experiences of particular industries and/or particular geographical areas? What is the possibility for a network spreading across localities and indeed nations, and how might this be stimulated by public policy? Are networks a source of economies of scale? Nichols suggests that economies of scale in information can be reaped by individual firm growth or by merger/takeover. However, the literature on networks suggests that smaller firms have co-operated to achieve scale economies. Is inter-firm co-operation typically possible and, where it is, what are the implications for antitrust as applied to urban and regional prosperity? Are there also possibilities for co-operation to yield economies of scope?

- **In the new economy, what is the best mix and what are the optimum relationships between firms of different geographical ‘origin’ and between firms of different size?** Nichols (2000) emphasises the importance of competition from outside, for example the influence of foreign competition forcing local manufacturers to become ‘lean and mean’. He also focuses on the influence of non-US transnational corporations and recent takeovers of local firms, suggesting that it would have been more desirable if the takeovers and therefore the control had gone the other way. “Far better for Wisconsin, for example, if Case had bought New Holland than that New Holland bought Case. Far better for Wisconsin, for example, if Giddings and Lewis had purchased the machine tool division of Thyssen than that Thyssen bought Giddings and Lewis.” What about localities other than Wisconsin, would it have been better for them? Is there a possibility for urban and regional prosperity that might benefit all localities? Is the impact of production being controlled from outside (but in the same nation) different to the control being from another nation? What sort of outside investment is most desirable and how can it be best attracted? Vital in this respect, can a region brand or re-brand itself so as to achieve its aims? As for firm size, some might argue that the relationship between large firms and SMEs (small and medium-sized firms) is one of the determinants of urban and regional prosperity. In Wisconsin there has been concern about large firms buying up the small but this is a wider issue; other regions face similar quandaries, not least because of the potential effects on innovation and industrial dynamism. To what extent is it necessary for urban and regional prosperity that there is a vibrant small firm sector? What are the prospects for smaller firms avoiding dependence on their large firm rivals and customers? Do large firms necessarily dominate supply chains? Is the presence of large firms essential? How might prospects be swayed by public initiatives? What are the consequences for the optimum mix across firm size for workforce development? For example, what are the educational and training requirements to ensure a vibrant supply of entrepreneurs able to establish new businesses? Is the activity of ‘serial entrepreneurs’ in creating small firms a key factor for prosperity in each and every region?

APPENDIX D

Report Written at the Second *L'institute*-Milwaukee Workshop

***INTERNATIONAL PERSPECTIVES ON SOUTHEASTERN
WISCONSIN'S ECONOMIC DEVELOPMENT***

L'INSTITUTE

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Forward

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II. Economic Development in Southeastern Wisconsin; Issues and Responses

III. Tentative Discussion of Ways Forward in Southeastern Wisconsin

FORWARD

This *Report* is intended to contribute to debate on future economic development in Wisconsin, especially Southeastern Wisconsin. Most notably, it is based upon ideas and experiences offered by scholars that participated in the second *L'institute-Milwaukee Workshop on Urban and Regional Prosperity in a Globalized Economy*. This was a meeting of scholars, public officials and business people. The scholars came from Wisconsin, elsewhere in the US, and from Europe (including England, Italy and Finland). The *Workshop* was held at the University of Wisconsin-Milwaukee (UWM) in July 2001 and was hosted by the Department of Economics (College of Letters and Science) and the School of Business Administration. The event was part of the program of *L'institute*, a joint venture between UWM (where *L'institute* is part of the *Center for International Education*) and the Universities of Birmingham (England) and Ferrara (Italy).

The origins of the *Report* lie in the first *L'institute-Milwaukee Workshop*, held in July 2000. This event brought together scholars from different parts of the US and Europe to analyse and discuss their research. It was decided that the second *Workshop* would not only invite scholars to participate on a similar basis, but would also attempt to give something further to the local community, based on the scholars' fields of expertise. These included the analysis of clusters, entrepreneurship, governance, Japanese industrial development, labor markets, anti-trust, supply chain management, technology and innovation, and public policy.

The *Report* is a result of discussions that included various commentators on economic development from the region; it is not merely views from outsiders, rather it is a product of discussions with some of those living and working in Wisconsin. However, the *Report* is neither the outcome of exhaustive discussions with all interested parties in Southeastern Wisconsin, nor the outcome of our own research on the area. Our aim is far more modest; to discuss some options that might be relevant for the region's future economic prosperity, based on a very limited set of comments, observations and largely anecdotal evidence presented at the *Workshop*. Of course, the choice from amongst those options is not a matter for outside observers. That is for the people living in the area.

The aim is to include international scholars in the process of regional economic development; to incorporate not only Wisconsin based faculty but also faculty from around the world that are networked into UWM. The foundation for this aim is three propositions:

- Universities are in a position to contribute to the process of economic development because of the expertise embodied in their scholars.
- The most effective contribution from universities implies the possibility that scholars be incorporated into the economic process, rather than that they be asked to provide inputs as 'external' commentators.
- Appropriate internationalization in universities can lead to a situation where a university is a meeting place and conduit for expertise from around the world.

It is an aim of *L'institute* to pursue activities that put these propositions into practice. This *Report* represents an outcome of those activities. It is intended as a useful contribution in its own right, and to be part of a learning process that might foster a more effective involvement of international scholars in the process of Wisconsin's economic development in the future.

SUMMARY OF THE ISSUES AND RESPONSES REVEALED IN OUR ANECDOTAL CONVERSATIONS

Emerging public discussion has identified various issues for Wisconsin to address. Among these are concerns with alleged low per-capita wealth, foreign ownership of companies, and a perceived 'brain drain' of college graduates. We would doubt the validity of some assertions on these issues and suggest that they warrant further clarification.

Whilst there is a lack of skilled labor in certain respects, the proportion of college graduate jobs in the State is argued to be relatively low. If there is a problem, to refer to it as a 'brain drain' may be somewhat confusing, given the way that this term has been used elsewhere. Nevertheless, the notion of a 'brain drain' appears to be viewed as both an emotional and an economic issue in practice. The emotional argument is that a lack of employment opportunities for college graduates disturbs the social balance in ways that are undesirable. The economic issue is associated with a desire to create more high-quality and high-value jobs, and linked to the concerns over low per-capita wealth. All of this might be representative of a more general perception of a threat to the quality of life in Wisconsin. A highlighted question, therefore, is how might the demand for college graduates be increased, and movements towards a more dynamic economy be made?

Suggested and current steps to address these problems include:

- The stimulation of public debate, searching for new ways forward;
- The identification of 'clusters' of firms in particular productive sectors as important focal points for attention;
- The introduction of classes in entrepreneurship, in an attempt to foster the emergence of new firms;
- A greater role for Wisconsin's colleges and universities as dynamic actors in the local economy, including encouragement of university-business partnerships;
- The establishment of Techstar, a business/academic/government consortium designed to support high-tech activity;
- The use of firm incubators, particularly to stimulate the emergence of high-tech activity;
- The attraction/creation/access to greater venture capital;
- The development of a network of 'angel investors' across the State, drawing especially on experienced business people who are withdrawing from full time involvement in the running of their own enterprises.

While many of these steps are being undertaken, we urge caution. Possible confusion around key issues implies the need for processes of clarification and investigation. In particular, this implies that continued public debate might take particular prominence in determining ways forward. There is a danger that attempting to focus solutions on currently identified concerns may miss the point and potentially lead to error.

SUMMARY OF TENTATIVE DISCUSSION OF WAYS FORWARD IN SOUTHEASTERN WISCONSIN

Public Debate

- (a) One view is that successful economic development requires the participation of all interested parties, suggesting that all should be fully involved in determining the aims and objectives of economic development in a particular region. If that option were to be adopted in Southeastern Wisconsin, it would be important that debate on the economy included all constituents (or at least that it evolved to do so). This might be achieved with the stimulus of different arenas that bring together different but overlapping interest groups for discussion and debate. A series of arenas can offer platforms for the various interest groups, which might then come together in particular meetings. Perhaps this is how the annual Wisconsin Economic Summit is conceived, for example.**
- (b) We have heard in our discussions concern that the culture of Southeastern Wisconsin needs to change in order to embrace the challenges facing the region. Perhaps what is happening is that people are becoming conscious of their region and are looking to build a local identity. This is in line with more general trends in a globalized, new economy, where regional identity is often perceived as important. With this in mind, one view is that it may be important to stimulate and promote a culture of engagement, concern being with the process of engagement in addition to the specific results arising from discussions within and across arenas. This argument also has implications for education, both in schools and beyond; if the people of Southeastern Wisconsin are seen as engaged citizens, then this needs to be reflected in education that encourages and enables such involvement. Southeastern Wisconsin's place in a globalized, new economy does not on that view depend merely on, for example, the number of college graduates studying high-tech science and engineering; it also depends on education at all levels to facilitate an active citizenry.**
- (c) Another choice that might be made is the following: to focus on the region in terms of its being engaged in competition with elsewhere, and thus to frame policies and ways forward in light of this competition; or to focus on the potential of the region in terms of what it wants and what it can do, which might imply competition but which might also imply co-operation and linkages with elsewhere. Where interests coincide, Southeastern Wisconsin might attempt to learn from and with Chicago, for example, or other Mid-Western regions. There might also be potential for effective co-operation between Southeastern Wisconsin and other localities in the world.**

Clusters

- (a) Various approaches to clusters can be identified, implying that there are various options for a region that is looking to them for a focus. This would perhaps suggest that clusters are an issue that would benefit from extensive analysis within the Southeastern Wisconsin region, drawing on experience in other regions, for example Italy and Japan.**
- (b) Italian experiences in recent decades, for example, suggest that some successful clusters are made up of a network of economically independent agents, also**

connected by market exchanges, but fundamentally sharing a non-market mechanism of governance. This non-market mechanism is collective action to produce public goods. Such goods are specific to the needs of the cluster and to the various interest groups - teams of agents - operating in its context. For example, the public good might focus on joint initiatives in marketing, research and development, finance, training and/or infrastructure. Such initiatives have depended critically on common attitudes towards trust and entrepreneurship among the peoples of a region. Evidence suggests that these conditions are more easily produced when economic relations overlap with a dense network of social relations, suggesting another reason why engagement might be seen as especially important.

- (c) Are the clusters existing in Southeastern Wisconsin of this type and might they be a basis for future economic success? Or are they different? Answers to these questions might be used to influence the form and therefore the impact of clusters in the future.

Lessons from Japanese Experiences?

- (a) Like Wisconsin, the Japanese economy has a strong tradition in manufacturing, and in particular, the machinery industries. With this in mind, it might be interesting that Japan actively encouraged the development of clusters at the regional level. These clusters became known as “company castle towns”, since they predominantly consisted of thousands of small Japanese firms supplying intermediate goods and services to Japan’s major corporations. Relations between Japan’s large corporations and the smaller firms were seen to be long-term, and involved the fostering of mutual trust and close co-operation amongst all parties. For a considerable period of time, these arrangements appeared congruent with Japan’s economic development. However, it has been argued that by the 1990’s the traditional relationships began to break down and decline has set in. It has also been argued that the situation has been exacerbated because the majority of small firms are “locked in” to specialised relationships with their main contractor. Following the case of Japan, it might be suggested that clusters which involve networks of small firms dependent on the global interests of larger corporations are unlikely to provide long-term, sustainable economic prosperity.
- (b) Japan has tried to nullify its “hollowing out” problem through its Technopolis Project. This has involved the creation of advanced technological production sites with close linkages with universities and research centres. However, the project has been unable to negate the effects of globalization. One reason appears to have been its over-reliance upon attracting major corporations to the cluster, rather than using resources to encourage a greater degree of diversity and embeddedness within Japan’s industrial regions.

Entrepreneurship

- (a) Entrepreneurship is generally seen as a generator of prosperity, but there may also be a conflict between enterprise formation and other desirable social objectives. For example, regulations on redundancy may increase the risks of

initiating business activity, and tax-financed public services and social protection are often seen as indirect impediments.

- (b) It is perhaps worth remembering that enterprise formation is not an end in itself. It is desirable insofar as it creates employment opportunities, provides consumers with greater choice and leads to innovation and growth. However, the way in which it takes place may be problematic. Employment generation, for example, might be biased towards low-skilled workers, who are often seen as vulnerable.
- (c) Robust applied research provides an input to innovative business activities. But this should not mean an exclusive focus on research with immediate commercial applications, because good applied research also requires good basic research. The opportunities to communicate provided by a university that is strong in both types of research may be more successful than if it specialises on issues with immediate practical applications. Moreover, business enterprises are known to be attracted to universities with academic excellence in all areas.
- (d) Competition policy may be an important component of a strategy that reduces the contradiction between different economic objectives. For example, a reduction of artificial barriers to entry can stimulate the emergence of new entrants.
- (e) The fact that enterprise formation might not be seen as an end in itself also means that policy makers might want to encourage activities that are not solely dependent on profit opportunities. The presence of a non-profit sector can also be a complement to an antitrust policy, because it becomes difficult to charge excessive prices in competition with non-commercial providers. In addition, non-commercial providers in the cultural sectors affect both the quality of life and the demand for highly skilled employees.

Conclusion

- (a) In raising questions and queries about the future for Southeastern Wisconsin, we are pointing to various possibilities and options. Although we have been far from exhaustive, it seems clear that choices are there to be made.
- (b) As the region looks to go forward we would urge that there is no search for a unique and simple answer. If any are hoping for a single step that will provide a panacea, they are likely to be disappointed. Likewise, any that might look for a blueprint that can be simply copied. Evidence from around the world suggests that there is no such thing, which is not to say that there are no lessons to be had from others in similar and related circumstances.
- (c) Southeastern Wisconsin is part of a globalized, new economy. In that context, it might seem prudent for the people of the region to be prepared to sow many seeds in their search for economic prosperity, to introduce pilot projects and to experiment so as to find what best serves their own aims and objectives. This might require the people to look for the best way forward for themselves, to seek what is appropriate for this region based upon its own characteristics and desires.

I.

INTRODUCTION

The starting point for our discussion is a presentation of some of the key issues that Southeastern Wisconsin is said to be facing, and a listing of some of the responses that are being suggested. These issues and responses have been brought to our attention as potentially important by various commentators from the region, but they are not necessarily all of the considerations that matter. We are reporting our understanding of views that have been expressed. This understanding might be flawed, not least given that it results from preliminary and quite brief discussions, where the evidence is often anecdotal. We have not had the opportunity for research that might verify or contradict this evidence. In addition, it is not being claimed that we have been presented with views that are exhaustive of all the considerations facing the people of Southeastern Wisconsin. Indeed, we would suggest, for example, that it is particularly important to ensure that all issues are identified and that processes are put in place to achieve this result. That is one of the points that we make in Section III of the *Report*, when we offer tentative discussion on ways forward.

II.

ECONOMIC DEVELOPMENT IN SOUTHEASTERN WISCONSIN; ISSUES AND RESPONSES

An emerging public discussion in Wisconsin - surrounding, for example, the first Wisconsin Economic Summit, held in November/December 2000 - has identified various issues that seem to be shaping current debate. These include alleged low per capita wealth, a concern about foreign ownership of productive assets and, linked to both, an apparent 'brain drain'.¹ However, we would doubt the validity of some assertions on these issues and suggest that they warrant further careful investigation to clarify the key points.

The debate about wealth, for example, draws upon the view that Wisconsin ranks 41st in the nation and 7th in the Midwest on an assets per capita basis.² The implication is questionable, given that Wisconsin ranks 30th nationally and 4th in the Midwest in the median value of owner-occupied housing.³ As for the 'brain drain', it refers to a net out-migration of college graduates. It has been argued that while "Wisconsin retains a good percentage of its own college grads (ranking as high as 7th in recent years), it does not attract college grads from other States".⁴ The problem is argued to be that the region

¹ See, for example, Bill Kraus, 2001, "The Great Wisconsin Brain Drain", *Wisconsin Academy Review*, Spring. It is argued that "Wisconsin seems to be destined to become a State of branches, not headquarters. The best and the brightest gravitate towards headquarters, not branches."

² Dennis K. Winters, 2000, "Help Wanted! Sustaining Wisconsin's Economic Prosperity", paper presented at the first Wisconsin Economic Summit.

³ U.S. Census Bureau, 1990, Summary Tape File.

⁴ David J Ward, "High Income Strategies for the Wisconsin Economy", paper presented at the first Wisconsin Economic Summit, November/December 2000. See also John B Torinus, 1999, "The Great Brain Robbery", *Corporate Report Wisconsin*, December.

“ranks 29th in the nation with 23% of its citizens holding a four year degree and ... is in the bottom quarter of States in terms of net migration of college graduates. Wisconsin’s net migration (loss) of college grads results from a very low (as low as 50th in the nation in recent years) in-migration of college graduates”. Yet it is also reported that Wisconsin experienced “modest net in-migration of college graduates from 1990 to 1995”.⁵ As for Southeastern Wisconsin, 73% of alumni from the University of Wisconsin-Milwaukee are retained in the area, marginally higher than the US average (71%) and considerably higher than the Wisconsin average 62%.⁶ To us, this implies a confusion that necessitates clarification.

In fact, any notion of a ‘brain drain’ in Wisconsin seems to be misplaced given the usual way that the term has been used. ‘Brain drain’ typically refers either to a situation where a person leaves a region to obtain education elsewhere and does not return, or to circumstances where a person is educated in a region and then leaves. It is not typically applied to a case where a person from one region obtains education in another, for example Wisconsin, and then returns to their home State. Moreover, situations in which people are coming into a region to obtain education could be argued to offer opportunities to that region, because it may then be able to encourage them to stay and draw upon their expertise in the future.

Nevertheless, our limited discussions certainly revealed that in practice importance is attached to Wisconsin’s ability to maintain and create employment opportunities for college graduates. This seems to be from both an economic development perspective and an emotional perspective. The latter is interesting in that it was framed in our conversations in terms of people’s children leaving the State, particularly those that are college graduates. This raises a set of questions as to how cities, regions, localities can hold on to people, maintaining a strong ‘society’ in a ‘global’ economy where mobility is a key feature. Indeed, is it desirable to try to do so? These issues are also prominent in European countries - for example, Spain. Moreover, perhaps the real issue is the age distribution of the population and the subsequent demographic structure of the area. There are also questions about whose concerns are being represented; are worries about children leaving the State confined to those whose children attend college, or are the concerns wider?

One possibility is that the issue regarding college graduates is representative of fears that current lifestyles in Southeastern Wisconsin are under threat in the medium term. The area is often described as a good place to live, but perhaps it will start to decline because of economic threats from other localities with different lifestyles, including differences in job quality, leisure activities and environment. Southeastern Wisconsin in certain respects appears to be economically successful. For example, it experienced 21% employment growth in the 1990s, including 6% growth in manufacturing, has been said to have high earnings per worker for the types of jobs available, and has a high labor force participation rate, 75% compared to a US average of 67%.⁷ An implication of fears of

⁵ Reported, with the caution that estimates were based on small samples, in Rick Romell, 1999, “As Economy Goes Digital, State Leaders Fear Brain Drain”, *Milwaukee Journal Sentinel*, 15th August.

⁶ *Milwaukee Journal Sentinel*, 22nd August 1999.

⁷ For data, see Nancy L Zimpher, Mark A Mone, Sammis White, Timothy R Sheehy and Kris Piwek, 2000, “Wisconsin Economic Summit. Southeastern Wisconsin Regional Paper”, paper presented at the first Wisconsin Economic Summit. (Published as the Appendix to Chapter 11 of this volume.)

threat from elsewhere might be a desire (amongst some?) for new ways forward, because existing lifestyles might be perceived as unsustainable in the medium term, given “competition” from other economies that adopt different approaches. A further implication might be a call (from some?) for protection, in some sense, in an attempt to preserve a way of life. If this is the case, however, there is a danger that focusing solutions on the specific concern over college graduates will miss the point and lead to error. There are also crucial questions as to whether everybody in Southeastern Wisconsin sees the current position as desirable, and why this is (or is not) the case.⁸

From an economic perspective the position is complex. Unemployment remains low, at 3.8%,⁹ and there are reported shortages of ‘skilled’ labor, although to us it is neither clear if this is a worse problem now than before, nor if it is a worse problem than in similar States. From this viewpoint, it might appear that there is a need for more people to develop intermediate and higher-intermediate skills, through perhaps vocational courses, and for fewer to proceed through channels that lead to college graduation. However, a second challenge identified by some in Wisconsin is the pursuit of high quality jobs, namely those in high-tech industries and those that lead to enhanced job quality in general.¹⁰ This is related to the perception that Wisconsin is characterised by low per-capita wealth. It could be argued that a focus on intermediate and higher-intermediate skills is unlikely to be conducive to an increase in higher-income and higher-quality jobs. The perceived economic concern is thus geared towards ways in which to maintain more college graduates, and in doing so to create a dynamic and ‘higher-value’ local economy. This is associated with the concern for the future, as identified above. Integrated within this is another query that was raised in our conversations; the claim that Wisconsin is effectively subsidizing other State education systems through the emigration of its college graduates (although if this is the case education might be seen as a beneficial export¹¹). Related to these issues are concerns with ensuring a more dynamic role in the local economy for Wisconsin’s educational institutions, attracting greater venture capital, improving infrastructure and enhancing the regulatory and entrepreneurial climates. Connected in particular with the desire for high-tech activity is the establishment of Techstar, a consortium of business, academe and government.

One view is that there are potentially two broad approaches to the so-called ‘brain drain’. The first is to seek ways in which to *change* the Wisconsin economy to attract and maintain more graduates. This might involve a re-orientation to more high-tech activities, or perhaps to services and away from basic manufacturing. The second is to question whether it is possible to attract these people while *maintaining* manufacturing as the base of the economy. One suggestion put to us is that manufacturing is in fact changing ‘naturally’ in becoming more knowledge intensive. Thus it may be possible to re-focus activities *within* manufacturing so as to attract more graduates. Initiatives currently under discussion in Wisconsin that are in line with these approaches include the introduction of

⁸ See, for example, Krauss, *op cit.*, “Milwaukee is a city on a Great Lake and features short commutes, an active cultural life, good clubs, access to country living, and good schools. It features these things, unfortunately, for the settled economic elite who can afford to live in the suburbs that ring the city”.

⁹ Zimpher *et al*, *op cit.*.

¹⁰ According to Romell, *op cit.*, “Competitive Wisconsin, Inc., a group of business, labor, agriculture and education leaders, is calling for the State to shift its economic development emphasis ‘from the quantity of jobs created to the quality of those jobs’.”

¹¹ See Kraus, *op cit.*.

classes in entrepreneurship, in an attempt to foster the emergence of new firms, and the use of firm incubators, particularly to stimulate the emergence of high-tech activity.

A related issue is the notion of 'place'. It was argued by some commentators from the region that were talking to us that graduate students no longer target a career path with a particular firm. Instead they determine a 'place' where they will seek employment. This is associated with the emergence of specific localities as clusters in certain sectors. An implication is that Wisconsin needs to develop acknowledged clusters of firms in activities/sectors that are attractive to college graduates. Again, this is an issue currently under discussion amongst some in the area. However, perhaps there is a further dimension in terms of a particular place being a 'hot spot' for young people to want to live. While this is strongly related to the clustering of particular activities, it is also associated with the existence of 'trendy' and 'vibrant' arts, sports, leisure and residential scenes (themselves related to clustering of economic activity, but possibly not exclusively). This is associated with analyses of indices representing some notion of city 'vibrancy' and attractiveness to young people, particularly young professionals.¹² It also has two further implications that relate to issues identified in the ongoing debate in Wisconsin. First, identifying the distinctive brand image that Wisconsin wishes to pursue, if any. Second, the significance of social equity, which has been identified to us as important in the context of creating an entrepreneurial culture, but which has wider implications for how Wisconsin is perceived as a place to live and work.

As for the particular focus for the more immediate way forward, current thinking in the region emphasises 'clusters', planned as the central theme of the second Wisconsin Economic Summit. In particular, there is to be a focus on knowledge-based clusters, which in turn is related to the approach that Wisconsin can be successful in manufacturing if it moves towards a knowledge-based model. Questions remain, however. For example, how should the clustered sectors be identified? One possibility is to analyse how currently successful manufacturing firms are succeeding, noting the other firms that are emerging around this, and to base a cluster process on these experiences. Is that approach desirable? There is also the notion of networks between business people and others with interests in the development of the Wisconsin economy. This is linked to the idea of a network of 'angels' supporting new enterprises with finance, and also to the establishment of the Techstar initiative.

III.

TENTATIVE DISCUSSION OF WAYS FORWARD IN SOUTHEASTERN WISCONSIN

III.i Public Debate

One view is that successful economic development requires the participation of all interested parties. This might be said to follow from an analysis of key decision-making in production and from the suggested desirability of decentralised, democratic

¹² These ideas are associated with the work of Richard Florida, who recently met with Southeastern Wisconsin civic leaders to discuss the issues, see *Milwaukee Journal Sentinel*, 11th March 2001.

involvement. These points have been argued to be significant in a globalized, new economy, both for particular regions that have been successful and for regions that have failed yet to realise their full economic potential. Such an approach suggests that all parties should be fully involved in determining the aims and objectives of economic development in a particular region. If that option were to be adopted in Southeastern Wisconsin, it would be important that debate on the economy included all constituents (or at least that it evolved to do so). This might be achieved with the stimulus of different arenas that bring together different but overlapping interest groups for discussion and debate. These arenas might exist around, for example, the business community, the education community and residents associations. There is no need to jump to a solution that attempts to involve all interest groups on the same footing in one arena. Indeed, such a jump may be undesirable. Rather, a series of arenas (that may be to a degree competing) can offer platforms for the various interest groups, which might then come together in particular meetings. Perhaps this is how the annual Wisconsin Economic Summit is conceived, for example; an arena where different groups meet for discussion, analysis and identification of ways forward, those groups having participated in other arenas throughout the year. Moreover, it is likely to be important that there is fluidity and flexibility, avoiding rigidity that prevents arenas from changing, converging and diverging over time.

We have heard in our discussions concern that the culture of Southeastern Wisconsin needs to alter in order to embrace the challenges facing the region. Perhaps what is happening is that people are becoming conscious of their region and are looking to build a local identity. This is in line with more general trends in a globalized, new economy, where regional identity is often perceived as important. With this in mind, one view is that it may be important to stimulate and promote a *culture of engagement*, concern being with the *process* of engagement in addition to the specific results arising from discussions within and across arenas. It is possible, for example, that engagement occurs only when there is perceived to be a problem. It may then quickly dissipate when the perception changes or the problem is being addressed. An alternative would be to view the *process* of engaging in debate as fundamental to future development, thus to view the evolution of a culture of engagement as an aim in itself. The significance of this process does not turn on the existence of real or alleged problems. In addition, we would not see this process as taking place at the expense of solving immediate problems. Advantages of such an approach include the potential for debate and strategy to evolve as problems are evolving, in a sense to stay ahead of the game. A culture of engagement that diffuses across society may also be advantageous in the sense that it promotes engagement by all groups. It thus avoids the potential that only a sub-sector of society participates in debate and accordingly benefits, addressing issues that might not be wholly representative of wider concerns.

The discussions in which we have participated appear to demonstrate a desire to promote engagement, and there has been explicit recognition of the need to involve particularly young professionals. This argument also has implications for education, both in schools and beyond: if the people of Southeastern Wisconsin are seen as active citizens, members of social, economic and political communities, then this needs to be reflected in education that encourages and enables such involvement. Southeastern Wisconsin's place in a globalized, new economy does not on that view depend merely on, for example, the

number of college graduates studying high-tech science and engineering. It also depends on education at all levels to facilitate an active citizenry.

This approach is associated with the idea of a region deciding for itself what it wants from its economy. It would be for the people of Southeastern Wisconsin to determine what they desire from their economy, to decide how they see themselves as a community or communities. Moreover, this leads us to another choice that might be made: to focus on the region in terms of its being engaged in competition with elsewhere, and thus to frame policies and ways forward in light of this competition; or to focus on the potential of the region in terms of what it wants and what it can do, which might imply competition but which might also imply co-operation and linkages with elsewhere. For example, one possibility is that Chicago is seen as a metropolitan area drawing economic activity from Wisconsin, especially Southeastern Wisconsin, which is a competitor for the same activity in a zero sum game; what one region gains, another loses. Alternatively, the people of Southeastern Wisconsin might focus on their own potential to produce, their own innovative capacity, looking to pursue that to the full rather than be concerned about others in a negative sense. Concern with others might instead arise in a positive manner. Where interests coincide, Southeastern Wisconsin might attempt to learn from and with Chicago, or other Mid-Western regions. It might also see opportunities arising as a result of successful economic activity in, for example, Chicago, benefiting from proximity without being a satellite.¹³ This is analogous to the choice facing individuals: to see themselves as being in competition with others, or to focus on the fulfilment of their own selves, the determination of their own potential as human beings.

This process need not be confined to the Mid-West. There might be potential for effective co-operation between Southeastern Wisconsin and other localities in the world. For example, there has been concern expressed about the impact of some transnational corporations producing in the region. Perhaps some fears over this issue could be allayed by co-operation with other regions where these transnationals also produce. There is also a potential to link with other regions in a mutually beneficial learning process. Not least, the people of Southeastern Wisconsin might be able to discover beneficial ways forward in conjunction with regions facing similar or related problems. This is not a matter of copying from elsewhere or adopting another region's model. Rather, it might be part of the process of the people of the region finding their own way forward, founded on their own concerns, desires and traditions.

These options might be argued to overlap with a fundamental issue at the root of economic development in the region. On the one hand, in our conversations and anecdotal evidence we have heard genuine concern about the future of the communities and societies in Southeastern Wisconsin. On the other, when this has been translated into possible suggestions for the future, it is not clear that the focus has been communal and social. This point can be illustrated by the discussions that we have had surrounding clusters. There are hints that initial discussion of clusters has been concerned with a group of individual firms that produce in the same sector, focusing perhaps on policy initiatives

¹³ Recent debate around the possibility of a high-speed train link between Chicago and Milwaukee has suggested that there is potential for greater co-operation along these lines, although opinions differ on the impact of such a venture.

that are directed at each firm in isolation. While this is one view of clusters, there are others that might be considered.

III.ii Clusters

Various approaches to clusters can be identified, implying that there are various options for a region that is looking to them for a focus. This would perhaps suggest that clusters are an issue that would benefit from extensive analysis within the Southeastern Wisconsin region, drawing on experience in other regions, for example Italy and Japan. There are choices to be made regarding the types of clusters that the region might be able to nurture in the future. These choices also depend on the types of clusters that currently exist.

As an illustration, one definition of a cluster, suggested in particular from experience of economic success in Italian industrial districts, might be the following. A cluster is made up of a network of economically independent agents, connected by market exchanges, but fundamentally sharing a non-market mechanism of governance. This non-market mechanism is collective action producing specific public goods, more or less consciously. Such goods are specific to the needs of the cluster and to the various interest groups - teams of agents - operating in its context. Thus the term cluster is attached to the idea of an evolving set of private and public activities. For example, the public good might focus on joint initiatives in marketing, research and development, finance (through mutual guarantee schemes), training and/or infrastructure (perhaps including investment in new communications networks). Experiences elsewhere imply that such initiatives have depended critically on common attitudes towards trust and entrepreneurship among the peoples of a region. Evidence suggests that these conditions are more easily produced when economic relations overlap with a dense network of social relations, hence another reason why engagement might be seen as especially important. Notably, co-operation along these lines need not be at the expense of effective competition, a requirement that might be seen as important if efficiency is to be ensured.

The potential importance of co-operation in a market context is also illustrated by observations on organizational solutions found in the new economy, such as: "many commentators have likened cyberspace to the Wild West, where old patterns of behaviour no longer apply and everything is up for grabs. Perhaps, but the lone cowboy approach rarely works in the information age. Network economics and positive feedback make co-operation more important than ever. Most companies need to cooperate with others to establish standards and create a single network of compatible users. But as soon as the ink is dry on the standards agreement, these same companies shift gears and compete head to head for their share of the network".¹⁴ It should be appreciated that this illustration is quite narrow, however, and that it points to potential problems; co-operation may extend to more than the establishment of infrastructure or standards, and it is important that these are not used as a barrier to the dynamism of the industry.

One specific question is whether clusters with the dense form and processes suggested above exist in Southeastern Wisconsin, and whether they might provide a basis for the

¹⁴ Carl Shapiro and Hal R Varian, 1999, *Information Rules. A Strategic Guide to the network Economy*, Boston, Mass.: Harvard Business School Press.

region's economic success. We have heard in our discussions that clusters are present in Southeastern Wisconsin, with around ten specific clusters identified. It may be, however, that some of these are pure geographical concentrations of firms and markets. Nevertheless, it is likely that some of those identified are closer than are others to the characteristics of successful cluster experiences in other parts of the world. In particular, the machinery and agro-food-beverages clusters seem to have strong traditions and provide a basis for dense interrelationship among firms. It has also been argued that institution-building for the specific needs and advancement of such relations is strong within the region.¹⁵

For us, this raises various questions. It is not clear, for example, if such clusters have a geographical core, with a regional and State corolla, or if their companies are dispersed throughout the State. In both cases, it would need to be clarified if and to what extent one or more localities and local communities within the State take the destiny of one cluster as strongly connected to the welfare and destiny of their workers, local entrepreneurs and residents. In other words, from where do the institutions and public goods that are shared by firms in one cluster derive? Are they solely the result of strategies enacted by, for example, leading firms? Or is there a greater involvement of local public, social, and economic organizations that take care of aspects connected to social and environmental sustainability? Answers to these questions might be used to influence the form, and therefore the impact, of the clusters.

More generally, suppose that some nuclei of dense relationships exist and define one or more vital clusters in Southeastern Wisconsin. If that is the case, they might be seen as engines of industrial and social progress and further questions arise as to the ways forward. For example, how might the clusters be enriched with higher knowledge and creative content? How might the growth of specialized knowledge activities be supported so that they can be harnessed to service the specific needs of the clusters? Is it possible to communicate to the young and their families, in the different communities involved, that good jobs and the sort of lifestyles that they desire may be available in the renewed clusters and the dynamism of the region? Positive answers might facilitate the development of a similar logic of development in more dispersed nuclei of economic activities in Southeastern Wisconsin. Moreover, in the search for answers and to avoid potential pitfalls, it might be useful to consider experiences from elsewhere, for example Japan.

III.iii Lessons from Japanese Experiences?

Like Wisconsin, the Japanese economy has a strong tradition in manufacturing, and in particular, the machinery industries. Moreover, one view is that Japan's post-war industrial strength has resulted from a combination of an active industrial policy and an institutional approach to economic development.

Japanese industrial policy has been the responsibility of the Ministry of International Trade and Industry (MITI) and has focused upon targetting 'strategic industries' for

¹⁵ See Josh Whitford, Jonathan Zeitlin and Joel Rogers, 2000, "Down the Line... Supplier Upgrading, Evolving OEM-Supplier Relations, and Directions for Future Manufacturing Modernization Policy and Research in Wisconsin", report prepared for the Wisconsin Manufacturing Extension Program (WMEP).

future economic and industrial development. The machinery sector received specific attention and, at various times over the last fifty years, has benefited from measures such as direct subsidies, discriminatory tariffs, preferential commodity taxes and favorable industry regulation. To complement these measures, MITI actively encouraged the development of clusters of industrial activity at the regional level. These clusters became known as ‘company castle towns’, since they predominantly consisted of thousands of small Japanese firms supplying intermediate goods and services to Japan’s major corporations. Relations between Japan’s large corporations and the smaller firms were seen to be long-term, and involved the fostering of mutual trust and close co-operation amongst all parties. For a considerable period of time, these arrangements appeared congruent with Japan’s economic development.

However, it has been argued that by the 1990’s the traditional relationships began to break down, as Japan’s larger corporations substantially increased overseas production and began to use their global supply networks for the outsourcing of intermediate goods and services. Consequently, Japan’s smaller firms began to feel isolated, and felt under pressure to accept lower profit margins and falling order books, resulting in an unprecedented rise in the number of small firm bankruptcy cases.¹⁶ It has also been argued that the situation has been exacerbated by the hierarchical nature of industrial production in Japan, where the majority of small firms are ‘locked in’ to specialised relationships with their main contractor. This has left Japan’s small firm base with little scope to diversify. At the regional level, the result has been a significant decline in business activities and industrial vitality, reducing the potential for economic regeneration, productivity growth and development. Commentators have raised serious concerns that Japanese industry is now facing a crisis of “hollowing out”.

Interestingly, Japan has tried to nullify the “hollowing out” problem through its Technopolis Project. This was launched in the 1980’s and has involved the creation of science parks - advanced technological production sites - with close linkages with universities and research centres. The aim has been for Japan to establish a number of high-tech cities that could encourage and retain major investors. By the mid-1990’s, approximately 30 projects had been instigated. However, while the project has had some minor successes, it has been unable to negate the effects of globalization and the problems of “hollowing out” on the wider scale. One reason for this relative failure appears to have been the project’s over-reliance upon attracting major corporations to the cluster, rather than using resources to encourage a greater degree of diversity and embeddedness within Japan’s industrial regions. The major corporations have taken a global perspective for their operations and they appear to have regarded their regional activities as little more than footloose investments.

The Japanese experience therefore provides a potentially important example for economic policy-making. Perhaps the Techstar project in Southeastern Wisconsin shares a number of similarities with Japan’s Technopolis project, particularly with its emphasis upon new economy initiatives. There is also the interest in encouraging industrial clusters. However, it is important that such initiatives should take full account of the global activities of the larger corporations that the region might wish to encourage and the types of industrial

¹⁶ See “Bankruptcy Debt Hits 1st Half Record”, *Nikkei Weekly*, 19th October 1998.

linkages that they are likely to build with the State's indigenous firms. These are important considerations since, as we have seen in the case of Japan, clusters that involve networks of small firms dependent on the global interests of larger corporations are unlikely to provide long-term, sustainable economic prosperity.

III.iv Entrepreneurship

Entrepreneurship is generally seen as a generator of prosperity, but there may also be a conflict between enterprise formation and other desirable social objectives. Insofar as employment and enterprise formation are dependent on profit opportunities, social objectives that are seen as associated with higher direct or indirect labor costs might be *harmful*, because of their impact on profits. For example, high wages may make it more expensive to be an employer. It may also decrease the incentive to become self-employed, as high wages increase the attraction of paid employment. Regulations on redundancy may increase the risks of initiating an activity, and tax-financed public services and social protection are often seen as indirect impediments. This may leave decision-makers with a stark choice. Either focus on a business-friendly policy that excludes large parts of the working population from the prosperity that is created, because it implies low wages; or focus on a welfare-oriented policy that excludes a section of the population from employment, because of low business activity.

This conventional view is too simplistic, because social insurance may offer a protection that encourages risk-taking. A well-developed public infrastructure is also often seen as crucial by the business community. Moreover, empirical evidence suggests that high profitability has a slow and limited effect on entry into an industry, and that the non-pecuniary benefits associated with being an entrepreneur are also important. While an increase in direct and indirect labor costs can drive firms out of business and cause unemployment, it is not certain that a reduction will stimulate the emergence of new enterprises.

However, it seems unwise to ignore the contradiction between enterprise formation and other social objectives. It may therefore be worthwhile to explore how public policy can increase economic activity without excluding the least well-off employees from prosperity. Similarly, if equality is seen as a desirable social objective, it may be worthwhile exploring how public policy might achieve greater equality without reducing entrepreneurship.

It is perhaps worth remembering that enterprise formation is not an end in itself. It is desirable insofar as it creates employment opportunities, provides consumers with greater choice and leads to innovation and growth. However, the way in which it takes place may be problematic. Employment generation, for example, might be biased towards low-skilled workers and low quality jobs. Such workers are often seen as vulnerable, and other undesirable social outcomes associated with inequality might result. Education may then be argued to play an important role in reducing the dependency on low-skilled jobs but, in its turn, this may create other problems. For example, our discussions reported in Section II suggest that there may be a shortage of job opportunities for the highly-skilled in Southeastern Wisconsin. In this case, one response would be to stimulate enterprise growth particularly in the high-tech sector. More generally, regions might want to consider their options in terms of the different forms of enterprises that might be created.

The research sector appears to play an important role in Wisconsin. Robust applied research provides an input to innovative business activities. But this should not mean an exclusive focus on research with immediate commercial applications, because good applied research also requires good basic research. The opportunities to communicate provided by a university that is strong in both types of research may be more successful than if it specialises on issues with immediate practical applications. Indeed, sound basic research can often have unintended commercial applications, and as such might be seen as valuable in itself. Moreover, business enterprises are known to be attracted to universities with academic excellence in all areas, as highlighted by the experience of commercialising research findings in, for example, the University of Warwick, England.

Markets are rarely perfectly competitive in practice. Competition policy, therefore, may be an important component of a strategy that reduces the contradiction between different economic objectives. For example, a reduction of artificial barriers to entry can stimulate the emergence of new entrants. Another case in point is provided by antitrust policy. If firms are forced to reduce their profit margins, an implication is that a given level of direct and indirect labor costs becomes consistent with a higher level of economic activity, and therefore higher employment.

The fact that enterprise formation might not be seen as an end in itself also means that policy makers might want to encourage activities that are not solely dependent on profit opportunities. The non-profit sector has traditionally been an important provider of, for example, education and health-care in the US, and there may be other sectors where an increased role can be explored. The presence of a non-profit sector can also be a complement to an antitrust policy, because it becomes difficult to charge excessive prices in competition with non-commercial providers. For example, the co-operative retail movement in Sweden has been seen as a way to affect the pricing policy of its more commercial rivals. Firms and organisations in public ownership might provide a similar role, but they may also provide a valuable complement, and not only in cases of natural monopoly. Infrastructure industries, for example, have often been in public ownership. A high quality of life may be important for attracting highly skilled employees which may be in high demand elsewhere, and a working public transport system may then be of vital importance, not least for environmental reasons. The experiences of privatised public transport in Britain have not been encouraging, and suggest that conventional views on public ownership may be prejudiced. Similarly, the privately-owned electricity system in parts of California has experienced recent difficulties, indicating that debate over public-private provision is far from closed. Moreover, non-commercial providers in the cultural sectors affect both the quality of life and the demand for highly skilled employees.

III.v Conclusion

In raising questions and queries about the future for Southern Wisconsin, we are pointing to various possibilities and options. Although we have been far from exhaustive, it seems clear that choices are there to be made. We suggest that it is important to be clear about the perceived problems; to establish their exact nature and precisely why they are of concern. Related to this, it might be appropriate to nurture a culture of engagement, in order to identify and understand the region's nature and identity. We have also indicated that clusters and entrepreneurship are likely to be significant issues that warrant active

attention, each implying options that deserve to be addressed. Clusters, for example, can be found in many forms throughout the world. Which sorts do the people of Southeastern Wisconsin desire? Are they attainable and, if so, how?

As the region looks to move forward we would urge that there is no search for a unique and simple answer. If any are hoping for a single step that will provide a panacea, they are likely to be disappointed. Likewise, any that might look for a blueprint that can be simply copied. Evidence from around the world suggests that there is no such thing, which is not to say that there are no lessons to be had from others in similar and related circumstances.

Southeastern Wisconsin is part of a globalized, new economy. In that context, it might seem prudent for the people of the region to be prepared to sow many seeds in their search for economic prosperity, to introduce pilot projects and to experiment so as to find what best serves their own aims and objectives. *The need is for the people to look for the best way forward for themselves, to seek what is appropriate for this region based upon its own characteristics and desires.*

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