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# The modernisation of Britain and local economic policy: promise and contradictions

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**Abstract.** Britain's poor economic performance is often thought to be the product of exceptional, archaic characteristics of British society which weaken domestic industry; 'modernisation' is seen as the creation of a 'normal' capitalism. The modernisation project in recent years has shifted from the national to the local level, partly as a reaction to national neoliberalism which prioritises capital mobility over socialisation to promote manufacturing. Local modernisation strategies can avoid the dangers of overpoliticisation which beset national modernisation, but they are undermined not only by deeply rooted traditions but also by themselves promoting capital mobility and regressive effects. Local strategies for socialisation and movements for British modernisation are both disrupted by the opposition between, but mutual dependence of, capital mobility and the territorial socialisation of production. The difficulty of modernising Britain is thus due to the typicality rather than to the exceptionalism of British capital.

## 1 Introduction

Since the decline of British manufacturing relative to its international rivals became evident in the second half of the 19th century, strategies have been put forward to combat it. Many of these have been referred to—ideologically, of course—as projects for 'modernising' Britain. Though varied in many ways, these have centred on some common themes: priority to domestic manufacturing instead of to internationalised financial and speculative activities; promotion of entrepreneurship, technological expertise, and innovation instead of the habits of the rentier; meritocracy and collaboration between the classes instead of snobbery and class divisions. More than a hundred years after the initiation of the modernising project, however, the symptoms of the 'British disease' appear as virulent as ever (Green, 1989; Hutton, 1995). In the last twenty years modernisation has taken on a new lease of life through a shift from the national to the local level: the mainstream of local economic initiatives (LEIs) which have burgeoned in Britain over this period has taken up the traditional themes of the modernising project.

In this paper we examine the reasons for this shift of spatial scale, its promise, and its efficacy. This enables us to address two broad questions. First, what light does the experience of mainstream LEIs throw on the nature of the British disease and the chronic problems of the modernising project? Second, can strategies for national transformation be carried out at, or at least initiated from, the local level? Storper and Walker (1989, pages 221–223), for example, have asserted that social structures of accumulation, and in particular those involving the strong linkages which modernising strategies seek to build, can be developed at the local level and then transferred, or generalised, to the national level. The authors in Hirst and Zeitlin's (1989) book have argued for generalising a particular model of local modernisation in Britain to the national level. What are the problems in achieving this transfer from local to national scale?

Though these might appear to be two distinct questions, we will argue that they can be analysed within a common theoretical framework: the contradiction between socialisation of production on the one hand and mobility and free markets on the other. The weakness of accumulation within Britain arises from the relation of strongly internationalised capital to domestic production; a relation which is not merely conflictual but contradictory. Locally based modernisation is both based on and made problematic by tensions between local socialisation and mobility of capital and labour. Our analysis puts into question both the project of British modernisation and the politics of mainstream LEIs.

In section 2 we present the history of British modernisation both at national and at local levels. In section 3 we argue that mainstream LEIs have a strategy of modernisation, and in section 4 we explore the promise of the local level for undertaking modernisation. In section 5 we discuss the problems which have appeared in the local modernising strategy. This analysis allows us, in section 6, to look at the relationship between local and national transformation, and in section 7 to reassess the British disease and its cures.

## **2 The history of British modernisation**

### **2.1 National modernisation projects**

The modernisation project has attempted to maintain the relative standing of the British domestic economy as other countries have overtaken it. Its central aim is to strengthen manufacturing, with benefits both for capital and for labour: to provide a basis for domestic accumulation; to support the balance of trade, thus lessening macroeconomic constraints on expansion and underwriting sterling; and to provide more and better quality jobs. The economic behaviour and political dominance of the financial institutions based in the City of London are sometimes seen as the major barrier to modernisation. In sharp contrast to the German banks, for example, the City maintains an arms-length relationship with industry, mediated by the stock exchange (Fine and Harris, 1985). This inclines British industry towards short-term profit horizons and investment decisions and hence to cost-competitive strategies. The City's dominance over government underlines the lack of industrial policy and failure to protect domestic industry, an emphasis on fiscal rectitude even where it conflicts with domestic accumulation, the determination of the exchange rate by capital flows, and short-termism that encourages speculation rather than measures to enhance domestic productivity (Aaronovitch and Smith, 1981; Hutton, 1995). The preference of British capital for liquidity steers it away from the messy business of making things towards portfolio investment which appropriates surplus value indirectly.

Modernisation has also addressed other perceived biases against manufacturing: an antitechnological culture and education system, lack of commercially tuned innovation, the military dominance of scientific research, antagonistic industrial relations, poor management, lack of entrepreneurialism, an absence of coordination within sectors, a failure to channel savings towards direct rather than portfolio investment, and disabling social conditions. At particular times modernisation strategy has concentrated on the one or two of these aspects which were temporarily seen as the essential problem.

The modernisers have sought to build an alliance between manufacturing capital, sections of the professional middle class with ties to production, and the manual working class, in order to develop sufficient political clout and to foster cooperation at the level of the workplace and industry. The modernising project is thus nationalist in various senses: in opposing the international openness of the British economy;

in seeking to benefit 'the nation' defined as labour and domestically rooted capital; and in proceeding via a cross-class national alliance.

The movement has periodically achieved short-lived bursts of political activity but with little impact (Newton and Porter, 1989). At the end of the last century, defeat by the Boers and worries about economic competitiveness underlay the Fabian National Efficiency Movement and Chamberlain's tariff reform. The former was an attempt to increase labour productivity through social reform grounded in a concern with the reproduction of labour and the damaging economic effects of class conflict; the welfare state originated in this same concern. Tariff reform, also known as Social Imperialism, sought a protected trading bloc based on the Empire while gaining the support of labour by the use of the revenue from tariffs to finance an extension of welfare. These two movements failed to convince the dominant interests wedded to free trade (Ingham, 1984, page 162). The theme of imperial preference was taken up again in the late 1920s and early 1930s in the corporatist, later fascist, programme of Oswald Moseley and the industrialist William Morris who represented the new mass-production industries seeking protection. Since 1939, however, modernisation has been associated with the centre-left. The war demonstrated the potential of an alliance of producers, marrying full-capacity production with a reduction of social inequalities. Wartime plans for greater intervention in land and finance reflected this consensus; but once the external threat had passed, traditional forces reexerted themselves, diluting modernisation by the postwar Labour administration.

In the period 1958-75 a consensus corporatism was attempted by Conservative and Labour governments, in which infrastructure investment and greatly expanded social programmes were deployed to manage uneven industrial growth, localised decline, and reconversion. With the onset of world economic stagnation, a more left-wing version of modernisation gained support in the labour movement, represented by the manifesto of the 1974 Labour government and the 'alternative economic strategy' of the 1970s and early 1980s (CSE, 1980). The neoliberal national strategy pursued by the Labour government after 1975, and subsequently by the Conservatives, eschews modernisation, and indeed reinforces the traditional structures of the British economy (Desai, 1989; Rowthorn, 1989). However, in this period the Conservative Party has been split, with some policies for national modernisation being put forward by the 'wets' (Robins and Webster, 1986).

Two contrasted types of explanation exist for the persistence of Britain's failure to modernise. The first treats Britain as *insufficiently capitalist*. In some accounts from both left and right, this appears as an essentially cultural problem: an excessive embrace of humanist values at the expense of utilitarian concerns (Wiener, 1981), symbolised in the contrasts between the British gentleman amateur and the American entrepreneur or German technologist. From the left, Anderson (1964; 1987) and Nairn (1964) have argued that, because it developed earlier than in other countries, the industrial bourgeoisie in Britain was, and remains, subordinate to the landed aristocracy and to commercial capital organised by an exceptionally undemocratic bourgeois state. In nations where it emerged later, the industrial bourgeoisie was forced to be more assertive and organised in its opposition both to its own aristocracy and to British competition. Hence modernisation strategies try to mimic the continental model of an industrial bourgeoisie and working class allied against commercial capital, landowners, and speculators. Central to reform are the archaic institutions of commercial capitalism which are held responsible for Britain's poor economic performance—whether the undemocratic state, the barriers to a meritocracy (Glyn and Miliband, 1994), the monarchy (Nairn, 1988), or the military (Kaldor et al, 1986).

In contrast, the second view sees Britain as *thoroughly capitalist*, and indeed too much so for its own good. Wood (1991) argues that Britain's economic individualism and the strong subordination of the state to civil society (Gamble, 1981) which results in the lack of collective industrial policy, far from being aristocratic hang-overs, are bourgeois traits. The weakness of the state may, however, then have prevented the adaption of the economy to modern forms of competition (Rowthorn, 1986; Wood, 1991). Both sides of the debate see the Empire as having constructed or reinforced a predilection for free trade, unrestricted capital flows, and a lack of collective attention to domestic productivity (Aaronovitch and Smith, 1981; Gamble, 1981; Massey, 1987); these features can be construed either as thoroughly capitalist or as military-aristocratic. We return to these theories in section 7.

## 2.2 The role of the local in modernisation

There is a long history of local initiatives for modernisation. Manufacturers had political strength in northern industrial towns but, despite periodic attempts to develop a wider modernising strategy, they failed to attain national political influence (Overbeck, 1986, pages 42–43). The one notable success was that of the Manchester manufacturers whose lobbying in the 1830s and 1840s contributed to the repeal of the Corn Laws and the amendment of the Poor Law; but this marked the zenith of the influence of industrial interest and its expression in Benthamism (Gowan, 1987).

From the mid-19th century local modernisation strategies have sought a consensus between labour and capital that can take left-wing, centrist, or right-wing forms. In the late 19th and early 20th century this consensus was rooted in municipal enterprise and welfare which benefited both labour and capital. 'Gas-and-water socialism' provided cheap light, heat, and water to labour, while manufacturers not only used these inputs to production but also obtained a labour force whose living costs, and thus wages, were held down. Local town planning, housing, and health programmes similarly benefited both classes and cemented their alliance. But these programmes failed to construct thoroughgoing modernisation projects even at the local level, because they did not gain enough local autonomy to match the variability of local socialisation, or to take on recalcitrant capital. This lack of autonomy was the result in part of the nationalisation of the utilities and some welfare services during the 20th century (ironically, as a result of their local successes), which led to the nominal spatial universality of most postwar national programmes. Moreover, local policies failed to link social and physical infrastructure to industrial planning.

Producers' alliances tend to have local roots. Chamberlain's politics rested on his manufacturing interests in Birmingham and a tradition of class cooperation; Mondism was based on ICI on Teeside which operated a cooperative regime inside the firm and a paternalistic regime in the locality, and had been stimulated by the effects on the working class of the return to the Gold Standard in 1925. Mondism was successful in achieving official acknowledgement in the report of the Macmillan committee of 1931—that the separation between City and industry was a problem—but the committee's recommendations were not implemented. Though Chamberlain, Mond, and Morris were motivated by local conditions they did not develop a producers' alliance from the bottom up; with the partial exception of Mond, they operated in the national political arena.

The 1958–75 national modernisation policy incorporated a strong local component in the form of centrally administered regional aid. This was targeted particularly at capital-intensive, hence 'modern', manufacturing, and was aimed at preventing overheating in the prosperous areas from acting as a constraint on growth, and at preventing localised poverty generating opposition to modernisation. Regional

coalitions of manufacturing capital and labour formed to lobby for this aid (Dunford et al, 1987); but they only moved weakly from cooperation in lobbying to cooperation within the labour process, industrial policy, or regional coordination. One region that has been particularly effective in lobbying is the North East: not only was it one of the largest beneficiaries of regional aid, but it has continuously stimulated different types of modernisation policy. One county in the region, Cleveland, subsequently became the most innovative of all localities in developing LEIs (Robinson, 1988), illustrating a continuity between policies for national, regional, and local modernisation.

### 3 A new form of local modernisation

Since the mid-1970s there has been a growth in local economic initiatives, embodying a range of political strategies (Campbell, 1990; Eisenschitz and Gough, 1993). Some have shared the neoliberal approach adopted by national governments during the period: attempts by local government to stimulate their economies by tax and spending cuts and by privatisation; moves by large firms and the public sector from national to local wage bargaining; and locally specific experiments in tax cutting and deregulation by central government, such as the Enterprise Zones. These initiatives have tended to perpetuate rather than to confront the cost-competitive, uncooperative, and rentier habits of British industry. The majority of LEIs, however, have taken up the themes of modernisation: they address supply-side problems through pragmatic interventionism; they both construct and rest on collaboration between the classes; and they try to weaken the influence of an internationally oriented London-based ruling class. This modernising localism has stretched politically from the initiatives of left Labour councils in the early 1980s (GLC, 1985; 1986a; 1986b) to the centre-right public-private partnerships which are now dominant (Moore and Richardson, 1989; Morison, 1987).

Mainstream local initiatives have borrowed from national modernisation projects the idea that the inputs to production are managed by anachronistic institutions (Elbaum and Lazonick, 1986). All the concerns mentioned in section 2—management expertise, enterprise, industrial relations, technology, property, marketing, finance, training, education, and culture—have been translated into local policies (Eisenschitz and Gough, 1993, chapter 2). In the face of an oligopolistic property industry, local authorities, alone or in partnership with the private sector and nonprofit developers, have developed new forms of serviced units for small firms, coordinated renewal of run-down industrial areas, and organised mixed-use renewal of large derelict areas. In the face of the conservative and antimanufacturing policies of the banks, local initiatives have developed alternative funding for small and medium enterprises. Just as local property initiatives subsequently drew in commercial developers, local authority funding schemes and Enterprise Boards have subsequently involved the clearing banks and City financial institutions—modernisation by example. Lack of managerial expertise in smaller firms has been addressed through training schemes, small-business centres, marketing services, and the diffusion of management skills from large firms through the corporately sponsored Enterprise Agencies. The modernisers' critique of skill and education has been taken up in a vast array of local training schemes and in initiatives to strengthen links between school and industry. Currently prominent issues—international standing in education and lack of vocational training—have a long pedigree in the history of reflections on British industrial failure. The modernising concern for technology has been reflected in burgeoning local policies for technology transfer and innovation through the Enterprise Agencies, science parks, Enterprise Boards, and innovation centres. The notorious lack of

cooperation between firms within an industry, expressing the individualistic ethos of British business, has been addressed through local sectoral schemes to supply common services and to foster cooperation in production inputs, subcontracting, research and development, marketing, and training. Excessive competition due to overcapacity in a local industry, a further cause of poor cooperation, has been tackled by some Enterprise Boards.

These policies are not approached in a narrowly technical fashion, but with the aim of changing social relations. First, they are responding to the modernisers' critique of British culture as lacking enterprise. LEIs have addressed enterprise as the creation of small firms and community businesses, as workers contributing their initiative within the workplace, and as the unemployed improving themselves and creating their own jobs; greater risk taking by capital is seen as requiring a more enterprising workforce. In a wider sense the locality as a whole is to work together as an enterprise and continuously restructure itself. Second, mainstream LEIs aim to create more cooperative class relations—a key theme of modernisation. Policies for increasing profitability are combined with better opportunities for labour (for example through training or through support for entrepreneurialism), for oppressed groups, and for the provision of services to poor areas through community businesses. By improving the quality of labour power these may benefit capital in the long term. Local sectoral initiatives usually involve the unions; Enterprise Board support to particular firms, for instance, often encouraged workforce and union participation. Overcoming traditional 'standoffish' relations within the workplace is regarded as essential in a knowledge-based economy; labour is to be involved rather than, as in neoliberal strategy, merely disciplined (Gilhespy et al, 1986). Cooperatives and community businesses, for instance, are seen as models of nonantagonistic and democratic enterprise (Maddock, 1991). Class antagonisms are thought to be overcome through the involvement of voluntary organisations, residents' groups, and trade unions alongside business and state agencies in a web of networks with specific tasks—the creation of a local corporatism. The vision is of a more meritocratic and democratic local society.

Within local initiatives class consensus has taken different political colourations, paralleling the variations in earlier modernisation projects. Chamberlain's and Mond's strategy, of creating economic growth through consensus and diverting some of the profits to labour, returned with the left's Enterprise Boards: planning agreements would raise firm profitability, and equal opportunities and popular planning would return some of these gains to workers (GLC, 1985). Centre-right LEIs, on the other hand, have sought consensus through the legitimacy of the market freed from 'inflexible' local and national state regulation, but opened up by widened opportunities for enterprise and self-improvement.

The centralisation of finance is thought to be a barrier to the overcoming of class antagonisms and to the possibilities of creating a producers alliance. Demonstrating the potential profitability of local investment and developing local production agglomerations will overcome the prejudice of the City and British industrial transnationals against the regions (Brunskill and Minns, 1989). Moreover, new political-economic forces are to be built locally. A centre-right version of this project is to rebuild a provincial bourgeoisie—new 'city fathers', able to challenge the deracinated metropolitan establishment. The liberal-left version is to create a local participatory civic culture and a new local citizenship, with a central role for local government (Cooke, 1989). These decentralist themes of opposition to the metropolitan ruling class are in a long tradition of modernisation reaching back at least to Cobbett; contemporary LEIs repeat the themes of earlier challenges by provincial industry discussed in section 2.

#### 4 Why has modernisation taken a local form?

In the period 1958–75 the modernisation project was pursued predominantly at the national level. Why has it since reverted mainly to a local level? One reason is the lack of attention paid by national governments since 1975 to the socialisation of production and reproduction. Neoliberal strategy has prevented effective coordination and improvement of housing, transport infrastructure, training, education, health, and technological capacities. Pressures to address these issues come from the corporate wing of business, but its representatives, such as the Confederation of British Industry, have been marginalised. In consequence, attempts are made to bypass national government and to address evident deficiencies in socialisation at the local level. The areas of concern have not been limited to the economic failures of neoliberalism, but have tried to deal with its political and social failures—particularly the creation of an impoverished and potentially volatile section of the working class; hence the concern of LEIs such as City Challenge with reproduction.

Further impetus has come from the recognition of the powerlessness of many branches of local government if modernisation is not addressed. Thus the divide between industry and finance may, for example, impinge on town planners who are unable to accomplish even modest social goals while land is increasingly commodified or who see the direct impact of arcane financial practices on their locality. They have consequently been pushed towards modernising LEIs (Totterdill, 1989, page 485).

The vacuum at the national level is not the whole story. The possibilities for, and the diversity of, local socialisation have also been important. Increasing intensity of international competition increases the pressure to use any advantages (rents) which can be created by specific local socialisation, and increased mobility of capital enables investment to flow more easily to wherever such advantages are created (Harvey, 1989). In certain sectors at certain times the local socialisation of production, and local linkages between production and reproduction, can be beneficial or even essential; these are addressed by the policies just discussed.

Although some of these forms of socialisation might have been addressed from a higher spatial level, for many a local element of policy is necessary; first because of local *linkages* between economic actors and institutions, and second because of the local *specificity* of socialisation (Gough, 1991). With regard to the latter, the diversity of local economies—which has tended to increase during the present long wave of stagnation—means that each area requires specific forms of socialisation and a different mix of inputs. Local policy can overcome the remoteness of national programmes.

These potentials for local modernisation have elicited institutional innovation. The growth of the 'entrepreneurial local state' has helped to reduce traditional interdepartmental rivalries within the local authority and has calmed the fears of capital, both of which formerly inhibited the potential of local initiatives in production. New initiatives sometimes break with local government tradition in spanning production and reproduction, for example in providing housing linked to employment.

Given this ability to carry out modernising initiatives at the local level, forces opposed to the neoliberalism of the national government have seen modernising LEIs as a means of exemplifying an alternative. The aspiration to move from local to national policy has spanned the political spectrum of modernising LEIs, including Conservative 'wets' (CBI, 1991; Todd, 1984), the Labour Party leadership (Labour Party, 1991), and the left (GLC, 1985). This promise of a national alternative to neoliberalism has increased popular support for mainstream LEIs.

The most important attraction of the local level for modernisation is that it can manage and contain interest-group pressures which have been the Achilles' heel of previous modernisation projects. In attempting to correct deficiencies of the market and individualistic decisionmaking, modernisation strategies tend to elicit increasing demands from sections of capital and labour to address their particular problems; interventions guided by overall efficiency decline into pork barrelling (Redwood, 1984). This tendency is accentuated by British individualism, which makes it difficult to control interest groups' demands by appeals to the 'national good', in contrast with Germany and Japan. These dangers are evident from the mild forms of modernisation tried in 1958-75, which elicited increasing demands for state involvement both in sunset and in sunrise sectors, and demands from labour for job saving and expanded welfare services. From the late 1960s controls on prices and wages necessary to provide the profits to fund restructuring were opposed by sections of capital and labour. This experience made British capital fearful of the politicisation of modernisation projects, causing it to scupper the European Fifth Directive for greater workplace democracy in 1973, the radical modernisation measures of the 1974 Labour Party manifesto, and the Bullock Commission's proposals for worker-directors four years later. The move towards neoliberalism after 1975 has been propelled, above all, by a desire to quell the demands of labour and capital by submitting them to market disciplines (Rowthorn, 1989).

One solution to this contradiction of modernisation, that of Joseph Chamberlain, was to fund overheads from imperial advantage, and to use imperialist ideology to contain excessive demands. This strategy clearly ceased to be viable after 1918, even if it had been before. Another solution was that of Moseley and Morris: to use an authoritarian state to keep control over interest-group demands. But although the Conservative government has introduced draconian controls over trade unions, it has not combined these with any substantial modernising measures. Yet another possibility is to use the disciplining effects of the market itself during a long period of stagnation; this was perhaps an element of the strategy of both Morris and Mond in the 1930s. It has certainly been important for the present wave of local modernisation projects: the deflationary context has made it easier for state and other economic agencies to resist 'excessive' demands from capital and labour. But national governments since 1975, as they did to a large extent in the 1930s, have centred their strategy on reinforcing this market discipline thus leaving themselves unable to promote modernisation. The paradox, then, is that the very macroeconomic conditions which might enable modernisation to be politically manageable have led national governments, schooled in British liberalism, to eschew modernising policies.

The resolution of these dilemmas has been to attempt modernisation at the local level. This approach has used the discipline instilled by intensified competitive conditions and by the Conservatives' authoritarianism. But LEIs have developed this discipline in particular ways. The pressure of competition between localities, even sharper than that between countries, limits excessive demands. The weakening of local government by the Conservatives keeps its interventions modest. An ideology of 'the good of the locality', embodied in networking and partnerships, helps to construct a consensual approach to policymaking and to combat individualism (Eisenschitz and Gough, 1993, chapters 1 and 2). On this basis an involvement of all local actors—including labour and residents—in economic development can be constructed which, though active, does not threaten to produce excessive demands. Thus modernisation has proceeded at the local level not just because of central government indifference, local linkages, and local specificity, but because this level promises to contain its political threat (Gough and Eisenschitz, 1996).



## 5 The problems of local modernisation

Although LEIs, then, have their appeal as a new route to modernisation, their record shows major problems. These arise partly from the very traditions which modernisation is trying to overcome. Moreover some LEIs, although not part of a neoliberal strategy, have ended up reinforcing rather than combatting the traditional structures of the British economy. These failures arise from a number of contradictions which tend to compound each other.

### 5.1 Mobility of capital

Modernisation requires that capital be prepared to become spatially and sectorally immobilised, committed and tied into networks of territorial socialisation. This is, of course, directly contrary to the traditions of British capital which is the most internationalised in the world (over half its assets are outside the UK). Previous modernisation projects have foundered because a decisive part of British capital has not been prepared to make a commitment to domestic accumulation given its relatively low profitability compared with other countries, and the uncertainties of technical and social innovation (Desai, 1989). Modernisation projects of Labour governments were abandoned both in 1965 and in 1975 in the face of opposition from the City, expressed in pressure on sterling.

This orientation of British capital is reflected in its relation to the state. Large British firms relate individually to the national rather than collectively to the local state (Peck, 1995); with the exception of the paternalistic company towns, which are in any case in decline as a result of takeover, diversification, and rationalisation (Beynon et al, 1989), there is no parallel in Britain to the local involvement of large companies in the USA.

This has limited the purchase of LEIs. It has been hard to persuade large firms to establish closer and more supportive relations with local suppliers and downstream users. Despite the promising opportunities demonstrated by local funding projects, the banks and financial institutions have committed only a tiny proportion of their funds to locally based projects, and British venture capital has always avoided genuine risk. It has been hard to win support from the corporate and banking sectors for fostering enterprise among disadvantaged groups, as the benefits of this to capital are long-term and collective and require a hands-on approach that even the Enterprise Agencies cannot sustain. Where LEIs have fostered successful businesses, they have sometimes used this success to move out of the locality; this is sometimes through being taken over—a route to growth which is particularly British (Eisenschitz and Gough, 1993, pages 78–79, 90, 175–178, 218–219, 248–250).

### 5.2 Heterogeneity of local capital

One reason for the lack of local involvement of capital is its heterogeneity with respect to final markets, labour power, and infrastructure requirements, which prevents the formation of a hegemonic strategy (Desai, 1989, page 305). Britain is particularly diverse economically compared with other countries, reflecting the longer history of capitalism, the legacy of Empire, and differing degrees of internationalisation (Leys, 1985). This diversity is apparent within particular localities. For example, the range of small manufacturing firms in inner-city areas includes 'jobbers' providing a standard service to business; subcontractors to manufacturers, wholesalers, and retailers; and firms selling directly to national and international markets (Leigh et al, 1982)—each firm will be operating at various spatial scales, adding to the difficulties of winning support for policies towards the sector.

### 5.3 The weakness of local firms' collaboration and of local government

Modernisation addresses the reproduction of the bases of accumulation and is therefore taken up with such diverse concerns as the freedom of capital to invest abroad, the commodification of subsistence goods, and the scope of workplace democracy. Such issues require collective institutions that are not afraid to curtail the freedoms of firms or sectors for the common good and which are able to arbitrate in conflicts between firms, whether the opponents be large against small, industrial against financial, multinational against domestic, risk takers against risk avoiders, or between those that compete on quality or on price.

There is a striking absence of such institutions in Britain at the local level. We have already noted the insubstantial role of big capital. The Chambers of Commerce, the local organisations of medium and small capital, are weak compared with their continental European counterparts, reflecting British individualism. Peck and Tickell's (1995) account of the involvement of business in LEIs in Manchester has shown that there is little strategic intelligence to guide policymaking, and that there has been a failure to develop any long-term strategy for local business as a whole, resulting in support for spectacular projects of indeterminate benefit.

Local government cannot fill this gap. This is not merely because of its weakening under the Conservative government, as local authorities still have formal mechanisms for intervention. Rather they have always been weak instruments for forming a tough collective strategy for capital because of the disinterest of capital in collaboration, its lack of local commitment, and its heterogeneity. As Rowthorn (1986) and Wood (1991) argue, the passivity of the British state makes it unable to decide on priorities for capital—demonstrated by the ineffectiveness of the welfare state even at its zenith (Townsend, 1979). Thus local government has never gained sufficient autonomy from capital to implement a modernising project.

### 5.4 Internal fragmentation of local economic policy

LEIs within each locality are, for the most part, implemented in fragmented fashion: policies for training, property, technology, marketing, finance, and so on are largely separate. This fragmentation has been true of local authorities' interventions, but it has been exacerbated by the increase, partly under central government pressure, in the number of local economic quangos concerned with single issues (Peck, 1995). A symptom of this fragmentation is the way in which particular factors have been embraced as the key to modernisation: property in the 1970s, small business in the early 1980s, high tech in the mid-1980s, training in the late 1980s, higher education in the early 1990s. This one-factor analysis has been a recurrent methodological weakness of national modernisation projects, and has now been repeated at the local level.

The problem with single-factor approaches is that to be effective a policy in one field needs to relate to changes in other fields (Desai, 1989). Improved supplies of skilled labour, for example, may be ineffective if firms do not use that labour well—a function not only of their production management but also of their product and marketing strategies and so on. Similarly, the impact of investment in industry depends upon its marginal productivity which depends upon numerous linked factors. Modernisation, to be successful, has to proceed on many different fronts in a coordinated way.

In response to this problem there have been moves towards greater coordination in LEIs (Eisenschitz and Gough, 1993, pages 252–254). To be serious, this would require the creation of institutions that are democratically accountable, locally autonomous, with adequate powers, and with the ability to raise finance (Audit

Commission, 1989). This would not only be a reversal of the Conservatives' policy, but would be a major departure from traditionally weak local government (see section 5.3). It would also be a sharp change from the traditional *modus operandi* of the British state—empirical, partial, pragmatic. Most problematically, strong coordination of a comprehensive package of policies would threaten, once again, to raise the old problem of modernisation—overpoliticisation (section 4). It would open the Pandora's box of ever-increasing intervention, and would threaten the same politicisation that the local welfare state encountered. The specific strength of the local path to modernisation, the consensus around it, would be jeopardised (Eisenschitz and Gough, 1996; Gough, 1996).

### 5.5 Lack of coordination between localities

Locally based modernisation suffers from a lack of coordination between localities which results in overcapacity and waste, and which can prevent any locality reaching a minimum profitable scale, as in the large investments for international games carried out in competition by Sheffield, Manchester, and Birmingham. Similarly, the internationalisation of tourism makes the infrastructure investment needed of a size where national coordination and selection is necessary.

Lack of coordination can also lead to a different problem: intensified uneven development. Areas which have strongly socialised support for particular sectors reap the most benefits from modernising strategies, whereas areas with weak socialisation find it hard to build up the necessary synergies (Malecki and Nijkamp, 1988; Storper and Walker, 1989). Strong firms and qualified labour in the weaker regions gravitate to the areas where investment is taking place. The 'Sun Belt' of southern England has benefitted the most from local (and national) state policies for high technology. In consequence cost pressures in prosperous regions, particularly on land and labour power, coexist with unused resources in the weaker regions. Deflationary policies to counter inflation—a classic symptom of the British disease—then have to be applied earlier than would be the case with a more even distribution of activity.

There have been some attempts at coordination between localities, notably the networks established in the textiles, clothing, and car industries (Wainwright, 1994, chapter 6); but in the case of clothing, at least, they have not overcome interlocal competition. But any strong form of coordination on the regional or national scale raises the spectre of overpoliticisation, given the traditions of weak national state planning. It would tend to undermine what we have seen to be precisely the political strength of LEIs—their localness (section 4). The lack of coordination of LEIs makes them politically manageable; but this is partly because it reproduces the individualistic traditions of Britain: lack of cooperation between *firms* now appears between *localities*; corporate individualism becomes civic individualism. In this sense LEIs have not escaped the British disease.

### 5.6 Priority to industry?

The modernisation project is seen ideally as promoting manufacturing, high-risk industries, and high-socialisation industries against speculative and mobile capital and low-risk sectors; in short, good against bad capitalism (Costello et al, 1989; Hirst and Zeitlin, 1989). But the practice has been more messy. First, LEIs have bowed to political pressures to stimulate accumulation or to provide jobs regardless of sector. They have promoted sectors such as office development, warehousing, retailing, and leisure, provided low-grade training in sectors with poor conditions such as the clothing industry, and subsidised 'screwdriver plants' lacking higher value-added activities. Tourism has been a favourite target as a rapidly growing

sector; but although it usually requires substantial local socialisation, it is not a priority for modernisers, and reinforces the British tendency to rely on rents—in this case from heritage. These concerns not only divert state funds from the target sectors, but may actually make matters worse for them through increasing prices in land and labour markets. The designation of areas for manufacturing, as early initiatives tried to do, has faltered. These deviations from the modernising programme have resulted from immediate pressures from sections of capital and labour and from the difficulties and long time horizons encountered in organising high-socialisation paths. There has thus been a change in what is thought to be modernisation, away from manufacturing and towards sectors which are already more profitable. Because concentration and centralisation of capital are proceeding rapidly in many of these sectors (tourism, retailing, business services), local initiatives have also had to dilute their commitment to the small firm.

Second, support for manufacturing, far from challenging the power that property, commercial, and financial capital has over it, often reinforces that power. The Enterprise Agencies, for example, which aid small firms, were sponsored by the banks to improve their risks in lending to small firms and to develop venture-capital markets. Support for local producers of consumer goods, such as furniture and clothing, has provided the large retailers with more options for subcontracting. This illustrates the *interdependence* of productive property, commercial, and financial capital, and the interdependence of immobile and mobile forms of capital (Harvey, 1985a, chapter 2); counterposing one to the other by modernising ideology is untenable (Murray, 1983). This means that mobile capital may sometimes commit itself to local socialisation, as modernisers would wish. But this relation sets up many tensions: less mobile capital has to support social overhead costs as well as endure local cyclical fluctuations; mobile capital can ‘cherry-pick’ opportunities which immobile risk-taking sectors have created; and the high profits that mobile capital can achieve (Andreff, 1984) raise the expectations of other capital to unsustainable levels and provide an incentive to resist the costs of socialisation. There are thus inescapable interdependencies and tensions between mobile and immobile capital and between productive and unproductive circuits, which modernisation strategies cannot suppress.

## 6 Local action and national transformation

There are obvious limitations to LEIs which arise from the legal and financial limitations of local government. But we have argued that the crucial problems of modernisation are political; and on the face of it, local modernisation can develop new social relations of production and consumption which could be generalised nationally. Why has this not occurred?

We have seen that the class relations of Britain have given local action a specific promise: it has the potential to contain, through its very localness, the political tensions that organised economic restructuring generates. But this leads to a contradiction. Modernisers seek to generalise their approach to the national level. Indeed, this is necessary in order to overcome weaknesses of local initiatives themselves: coordination between localities is necessary to avoid overproduction and deepening uneven development (section 5.5); local industrial policies often need complementary policies at the national level; and national policies are needed to curb capital mobility. But any success in moving modernisation to the national level would tend to politicise that project once again; the solidarity of *localism* would be lost, whereas, as at the end of the long boom, British *nationalism* would not necessarily be sufficient to contain the tensions between capital, labour, and the

state. If one takes Scotland as a nation in the sense discussed here, one can see these problems in the experience of the Scottish Development Agency which was set up by the 1974–79 Labour government to implement the National Enterprise Board's modernisation programme. It failed, however, to maintain the consensus associated with the local—running into the familiar conflicts between a market-led growth strategy and the distributional approach preferred by the local authorities (Moore and Booth, 1986). Thus national policies are not local ones writ large: increased scale changes their political nature.

Local modernisation has, however, had one notable success at the national level. It has helped the political project of changing the policy of the labour movement from a focus on large firms towards a focus on small firms and on enterprise, from support for national public ownership to support for decentralisation and privatisation, and from planning to 'ad hocery' (Labour Party, 1991). Although the Labour leadership would have moved in this direction anyway, under pressure from the economic crisis and neoliberalism, the exemplification of these new elements by local mainstream and some 'productionist' left modernisation policies was influential—not merely because policies were actually being implemented but because of the consensus and class solidarity evident in them. In the sense of policy rather than economic achievement, then, the local has been a launching pad for the national.

Our analysis indicates that one cannot generalise about the potential of local economic projects to spread to the national level, as they involve the unpredictable negotiation of multiple and unique contradictions. But the discussion is sufficient to indicate that a strategy of strong socialisation, whatever its technical rationality, cannot easily be generalised from the local to larger scales, and that the barriers are above all political ones.

## 7 The nature of British specificity and the British disease

The problems of modernising LEIs are to some extent 'chicken and egg': traditional structures undermine the attempt to change them. But we have shown more than this: that elements of British social structure often understood by modernisers as separate, such as training, technology, finance, and so on, continually reinforce each other and that policy therefore has the difficult and rarely achieved task of coordinating change in all of these together. However, the problems of modernisation are not simply inertia, but, as we now show, stem from fundamental capitalist contradictions.

In modernising ideology the British disease is conceived as arising from structures which are archaic and imperfectly capitalist; with sufficient political will these can be replaced by structures closer to those of more successful countries. Against this, we argue that British capital is as modern and capitalist as is any other and that the project of modernisation has failed and continues to fail because it involves contradictions characteristic of capitalism as such, albeit in specific forms.

The first issue concerns the political and economic power associated with mobility. A mobile and internationalised capital will, almost by definition, pose difficulties for a nation-state. All attempts at modernisation in Britain have failed to resist the subordination of the state to this section of capital, and we have seen that this has been a central problem of the local modernisation project (sections 5.1, 5.3, 5.6). Modernisers argue that this is a peculiarly British problem, and that the more advanced the country the greater the degree of nonmarket coordination, whether or not state organised (Anderson, 1964). However, such coordination is often the result of capital with limited international options, as was the case for German and Japanese capital; conversely, British mobility reflected the strength rather than the backwardness of British capital (Wood, 1991). To this extent the development of

capital is measured by its escape from the bonds that tie it to particular locations. Although mobility may not be a beneficial strategy for countries or localities, it is so for firms—allowing them to choose and move rapidly between sectors and locations. Firms can use this mobility to discipline labour and to minimise the political entanglements which strongly socialised production involves. In periods of crisis the pressures for mobility are particularly intense (Harvey, 1985b; Holloway, 1994); in the last twenty years all advanced capitalist countries, including the most socialised such as Germany and Japan, have loosened restrictions on capital mobility.

But at the same time, mobile capital is dependent on immobility and socialisation. Although individual firms are able to disengage from any specific activity with increasing ease, the system as a whole is ever more interdependent and this socialisation is essential for the aggregate surplus value from which mobile capital draws its profits (section 4). We have seen (sections 4, 5.6) how the profits of mobile capital require less mobile capital to sustain them. This embeddedness is true even of highly mobile sectors, such as the City of London which depends on the local information and communications infrastructures, law and order, and the unique qualities of London for the reproduction of its labour force (Zukin, 1992). Similarly the media and advertising industries are expanding into world markets and requiring highly socialised local economies to do so.

Conversely, local socialisation depends upon mobility. The resources that socialisation requires are increasingly derived from the high profits of mobile capital. Moreover, as we have seen (section 4), the political threats of socialisation are countered by the freedom that capital possesses through its spatial and sectoral mobility.

Socialisation and mobility, then, form a contradictory unity. The modernisers' wish for a socialised capitalism without its mobile face is a utopia. Modernisation must walk a tightrope between the two poles. This tightrope involves not merely 'economic' tensions but also contradictory pressures on state policy. In order to check the mobility of British capital, modernising local strategies have to enforce new modes of behaviour, both on capital and on labour, and to overcome the domination of the state by particular interests. On the other hand, in order to organise the local socialisation of production they need to foster consensus between the state, capital, and labour. Thus local economic agencies have to get tough with private interests *and* win their collaboration and commitment.

The failure of modernising projects to resist short-term pressures from private interests is evident from the problems discussed in section 5. Local agencies have not been able to resist pressures of mobility, to mediate between the strongly heterogeneous elements of British capital, to coordinate adequately different strands of policy, nor to give support to productive and risk-taking investment as against speculative and low-risk activities; nor has the national state been prepared to regulate the competition of localities. If modernisation strategies refuse to acknowledge, let alone challenge, existing relations of power between the state and private interests, then how is the British economy to be modernised? But the problem is not merely the power of capital in the abstract; it is that local modernisation has sought to proceed via consensus, which would be threatened by getting tough with capital. Thus the problem is a specific expression of the general contradiction: that the capitalist state needs both to win the support of private interests *and* to maintain its independence from them.

These problems are compounded by dilemmas surrounding the relations between capital and labour. Modernisation both rests on and seeks to foster a more active role for workers within the workplace and beyond it, through policies such as enterprise training and promoting worker share ownership. And yet the absence

of enterprise among the working class and Britain's standoffish industrial relations are a result of the historical success of capital in imposing work discipline and acceptance of authority. Too much cooperation threatens to disrupt this gain (Hyman and Elger, 1982); as Cohen and Henderson (1991) argue, habituation to work cannot be taken for granted. Again, a general contradiction is involved: the need of capital both to discipline and to elicit cooperation from labour (Friedman, 1977).

It is these contradictions of modernisation which have led to the fragmented and empiricist practice described in section 5. A strategy which was coordinated across all the necessary elements would transgress too far on private prerogatives and threaten to politicise both the role of the state and the relations between the classes. Initiatives which limit themselves to one factor (such as our example of training policies) avoid this danger, both because they require less political coordination and because they chime with a characteristically British empiricist analysis of problems. But, as we have seen, this fragmentation severely limits effectiveness.

Our analysis of the limitations of local modernisation initiatives thus suggests that the British disease is perpetuated by policy dilemmas resting on a number of linked contradictions: the contradictory unity of mobility and socialisation; the need for the state both to win the collaboration of private interests and to arbitrate between them; and the need both for submission to authority and for active initiative on the part of labour. These contradictions take specific forms in Britain, and have developed in particular ways during the present long period of stagnation. But the generality of the contradictions suggests that the barriers to modernisation are not *merely British* specificities and that they run very deep. The perpetuation of British decline is not simply a matter of social inertia, nor the opposition of important fractions of capital: it is due to projects of modernisation being weakened by the very contradictions into which they seek to intervene.

There is, then, no correct modernisation strategy, just as there is no 'normal' route of capitalist development. The British economy was not sidetracked by a unique set of circumstances arising from its position as the first capitalist country; rather, after Wood (1991), we argue that because Britain is the archetypal capitalist economy it faced the dilemmas over mobile capital earlier than did any other. Modernising strategies do not merely have to convert Britain to some 'normal' capitalism, but have to negotiate quite general dilemmas of capitalist development. The latter underly the multiple problems faced by local modernising strategy (sections 5 and 6). Because they involve such contradictions, the successes of (local) modernising strategies cannot be predicted, but depend on political mobilisation and struggle structured by these contradictions.

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