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The contradictions of neo-Keynesian local economic strategy

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ABSTRACT

The last twenty years have seen the rise of local economic initiatives in the developed capitalist countries. Despite the dominance of neo-liberalism at the national level, most of these local programmes are neo-Keynesian, seeking to use non-market coordination pragmatically to address market failures and to use localism to develop active cooperation between the state, capital and sometimes labour and residents. This article argues that, despite their promise, neo-Keynesian local strategies suffer from major problems and unintended consequences. These originate in the attempt to privilege the productive, coordinated, socialized and territorially defined aspects of capitalism over private ownership, value discipline and geographical mobility; these two sets of traits in reality are both mutually dependent and inevitably in conflict. The limits of neo-Keynesian localism are ultimately set by struggle within and between classes, structured in important ways by geographical scale.

KEYWORDS

Locality; globalization; socialization; class; Keynesianism; neo-liberalism.

1 INTRODUCTION

Since the world recession of 1974-5 national governments in the developed capitalist countries (DCCs) have increasingly adopted neo-liberal policies of deregulation, privatization, marketization and attacks on labour. This strategy has been implemented also at the local level ('local' meaning here 'sub-national' - the neighbourhood, town or region) by large firms, neo-liberal local governments, and localized initiatives of national governments: decentralization of wage bargaining, neo-liberal policies in the local state, localized tax cutting and deregulation of land use. Yet, paradoxically, the majority of local economic initiatives and

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overall local programmes have exemplified a quite different strategy, which we can call neo-Keynesian. They have addressed themselves to the *failures* of markets, and have constructed a great variety of forms of *non-market* coordination via local 'networking'; their basis is that regulation via markets is not enough. Local networks have built coordination between firms, levels of the state, and trade union and community groups. They address the socialization of production and reproduction, that is, the extent to which different aspects of production and reproduction are inadequately coordinated through the market (Harvey, 1985; Cox and Mair, 1989; Eisenschitz and Gough, 1993 (henceforth *PLEP*): chs 5 and 6).

Neo-Keynesian strategy involves a stronger notion of locality than neo-liberalism: it seeks to anchor social actors in the locality through strong long-term interactions with each other, developing local familiarity and solidarity, whereas neo-liberalism's interest in localities is essentially in their cost differences and the opportunities these offer to mobile capital (Gough and Eisenschitz, 1996). Neo-Keynesianism may seek to attract inward investment; but, in contrast to neo-liberalism, it does so through socialization rather than cost cutting, and aims to embed the new investment locally.

While the involvement of the local state in these networks is often different from its form during the postwar boom, its role has not simply been *minimized* as in the neo-liberal programme: it often takes the initiative in networking, and supplies a major part of the funding for new initiatives. We describe these programmes as neo-Keynesian because they resemble the 'Keynesian' national political economy of the postwar boom in seeking to address market failures through pragmatic forms of coordination between capital, labour, residents and the state. The term 'Keynesian' as used here does not imply a focus on demand management: the national policies of the boom were centrally concerned with industrial organization, technology, productivity, information, skill, property and the financing of investment, and it is these areas which have been the main concern of new local neo-Keynesian strategies.

In an earlier paper we analysed the emergence and construction of neo-Keynesian LEIs (Gough and Eisenschitz, 1996); in this article we explore their failures, instabilities and limits. We argue that these programmes attempt to strengthen one side of a number of tensions within the capitalist space economy: fixity against mobility, local against global, productive against money capital, socialization against regulation by value, concrete against abstract labour power. This intervention both gives these programmes their promise and imbues them with contradictions. The negotiation of these contradictions involves conflicts within and between capital, labour and the state. The limits of neo-Keynesian local strategies are, then, ultimately set, not by technical-

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organizational aspects of 'the economy', but by social struggle conditioned by space. The problems of LEIs are usually seen by their practitioners as due to contingent adverse economic conditions, technical failures or failures of the political process in the narrow sense; their academic supporters see their main problem as being opposition from malign or misguided neo-liberalism. Our argument is that the problems go far deeper.

This article is based on our research on LEIs in Britain; much of the evidence is contained in *PLEP*. Because we wish to emphasize the role of class struggle, which despite globalization is still strongly nationally based, a country case study is useful. Nevertheless, our analysis posits some contradictions of neo-Keynesian LEIs which we believe will manifest themselves, albeit in different forms, in other countries.

We first describe the rise of neo-Keynesian LEIs (Section 2). The development of class relations at the national and international level is then discussed; this provides our analysis of the crisis of *national* Keynesianism and also provides the context for the recent development of LEIs (Section 3). We discuss the construction of neo-Keynesian LEIs, arguing that the local level of these programmes has been vital to constructing their class relations (Section 4). We then turn to the evident problems and underlying contradictions of neo-Keynesian LEIs: the pressures of capital mobility (Section 5), their exacerbation of social and spatial uneven development (Section 6), their fragmented implementation (Section 7) and their lack of spatial coordination (Section 8). The latter limitations in implementation are not oversights but arise ultimately from the need to maintain private appropriation and the discipline of value against the spread of non-market coordination and excessive politicization. Section 9 argues that left-wing variants of the local neo-Keynesian strategy do not escape its contradictions, and Section 10 presents our theoretical conclusions.

2 THE RISE OF NEO-KEYNESIAN LOCAL ECONOMIC STRATEGY

Local neo-Keynesian strategies have embodied a considerable range of different class relations. One may distinguish three forms, though the boundaries between them are fuzzy.

- 1 Planning of elements of the local economy by sections of capital, sometimes together with the local state. Local workers and residents play little active role in these initiatives, which we may call *elite institutionalism* (Gough, forthcoming c). Many of the growth coalitions and CBD redevelopment committees in the US are of this type. These initiatives are neo-Keynesian in that they involve non-market coordination

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between firms and sectors, use the regulatory powers of the state, and usually draw on considerable state expenditures.

- 2 A *social-democratic strategy* which combines interventions aimed at increasing profitability and capital accumulation with policies which have immediate benefits for labour and residents, rather than relying on 'trickle down'. This strategy seeks to create a real solidarity of the locality through addressing the interests of both classes, and its implementation may give an active role to trade union and community organizations. In contrast to elite institutionalism, this strategy is conscious that efficient production may depend on the skills, habits and attitudes of labour. It addresses reproduction issues such as education, housing, consumer services, and drawing the long-term unemployed into wage labour, including through community businesses and cooperatives.
- 3 A *Left social-democratic strategy*. This involves stronger forms of co-ordination between firms, the formal or informal imposition of obligations on them, and sometimes a more extensive role for the local state. It seeks to increase control by workers, residents and perhaps the local state as an aim rather than merely a means (GLC, 1985; Davis *et al.*, 1991). All social-democratic strategies see benefits for labour being financed by increases in local profitability. The Left strategy argues that the latter depend on active cooperation by workers and residents in order to achieve high productivity, quality and innovation, and this is secured by their receiving tangible benefits in the medium term (GLC, 1985, 1986; Lipietz, 1992).

Most of our critique in this article applies to all three forms of neo-Keynesian strategy. Some issues concerning the relation of LEIs to labour apply only to the social-democratic variants (Sections 6 and 9 particularly).

Neo-Keynesian local interventions have long existed in federal systems and in property-based policies of city governments, particularly in countries where large capital has strong local roots (PLEP, pp. 12–15). But the last twenty years have seen a growth of this strategy throughout the DCCs (OECD, 1985). In the US, some States have continued neo-liberal policies of cost minimization and weak labour; but others, both in areas of industrial decline and in growth areas, have adopted more interventionist policies (Markusen, 1987); in the Rust Belt there have been some ambitious and strongly interventionist restructuring initiatives (Neill, 1991). At the city and neighbourhood level, as well as elite institutionalist initiatives there have been programmes of a social-democratic hue, including of community economic development (McArthur, 1993) and comprehensive and balanced area initiatives (Dutton, 1991); some of these have even been of a Left social-democratic type (Davis *et al.*, 1989). In Japan since the 1980s, MITI and other central

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government ministries have put in hand a staggering range of local initiatives, including the Technopolis programme, Regional Research Cores, Regional Telecommunications Networks, Teletopias and New Media Communities; there are now roughly 150 of these projects, while governments in the Tokyo-Osaka megalopolis have initiated another hundred (Morris-Suzuki, 1990; Tatsuno, 1991). These have attempted to promote both greater internal integration and industrial specialization of regions, and have involved a substantial role for regional and local government. The planning of the Japanese initiatives has been for the most part elitist. In western Europe, LEIs are overwhelmingly neo-Keynesian rather than neo-liberal, many of a social-democratic hue (Hilpert, 1991; Martinos and Humphreys, 1990). Such programmes have been supported by the EU through the European Social Fund and the European Regional Fund. Despite a strongly neo-liberal national government, the majority of local economic programmes in Britain have been neo-Keynesian (Moore and Richardson, 1989; Gough and Eisenschitz, 1996); some Left social-democratic programmes have been attempted (GLC, 1985).

Social-democratic LEIs of different hues have received wide support from academics. They have been seen as a way of combating neo-liberalism and of increasing economic democracy through decentralization (Harrison and Bluestone, 1988; Cooke, 1989b; Moore and Richardson, 1989; Davis *et al.*, 1989; Amin and Thrift, 1995). Some of this work draws on the critique of neo-liberalism provided by theorists of 'competitive advantage' such as Robert Reich and Michael Porter. For some authors, the importance of LEIs stems from a weakening of the economic powers of the national state (Swyngedouw, 1992), an increasing political and cultural importance of the local as against the national (Cooke, 1989a; Soja, 1989), and consequent emergence of 'global localization'. For some institutionalist writers, their promise is based on a shift from mass production to flexible specialization, the latter requiring local regulation of labour markets and collective services, resting on a business culture embodying a compromise between the classes (Best, 1986; Hirst and Zeitlin, 1989; Best, 1990; Storper, 1991; Scott, 1992; Murray, 1992). Amin and Thrift (1995) have argued for an associationalist economy of flexible networks, within which the local level plays a major role, made progressive by pressure from popular organizations and the state. Some regulationist authors have seen the local level as important in constructing a social-democratic form of 'post-Fordism', combining regulation to support 'flexible' and efficient production with a strong role for organized labour (Leborgne and Lipietz, 1988, 1992; Moulaert and Swyngedouw, 1991; Lipietz, 1992; for a critique see Gough, forthcoming a and b). Our critique is of both the practice of neo-Keynesian LEIs and the academic literature in support of them.

3 NEO-LIBERALISM AND THE 'DEATH OF KEYNESIANISM'

Over the history of capitalism there has been a tendency for the socialization of production to increase (Connell, 1977). This has been expressed in, variously, an increase in state production and regulation, non-market forms of collaboration between firms, concentration and centralization of capital, institutionalized labour markets, and non-market means of reproducing labour other than domestic work. In the postwar boom, these forms of socialization were deepened dramatically in a politics we can call 'Keynesianism'. Keynesianism contributed positively to accumulation for a considerable time by creating greater compatibility between production demands and inputs, infrastructures and labour power. Rapid wage increases, increasing state services and transfer payments, and institutional integration helped to secure working-class cooperation. The historically high rates of profit enabled aggregate taxation to rise and finance the expanding state without major opposition from capital or labour.

Increasing socialization and rapid accumulation, however, contained their own undoing. The organic composition of capital and the share of state expenditure rose (Shaikh, 1978; Hargreaves Heap, 1980; Aglietta, 1979), both trends expressing increasing socialization and leading to a tendential fall in the rate of profit (Gough, 1991). This made capital more resistant to wage demands and the state more resistant to spending demands. But the growth of non-market arrangements, and the raised expectations resulting from rapid growth, made capital and labour more demanding. Unionization increased, particularly in the most socialized sectors, and workers became more resistant to intensification. Rapid accumulation produced acute urban problems. Rising real incomes, increasingly socialized reproduction, and increased waged work of women destabilized gender. The universalistic pretensions of Keynesianism, alongside its actually uneven benefits, gave rise to rebellions of black and immigrant workers.

From the late 1960s capital and the state attempted accelerated restructuring of production, involving increases in state production and reproduction spending, combined with an offensive against labour. But these resulted in explosive trade union struggles, and coincided with struggles against women's and black oppression, on welfare and on urban questions. The class compromise embodied in Keynesianism had definitively unravelled (Habermas, 1976; Clarke, 1988).

From the mid-1970s capital and the state made a turn to neo-liberalism, first and most strongly in the countries with the lowest rates of accumulation and the sharpest social conflicts (US, UK), but by the late 1980s even in Germany and Japan. The essence of this strategy is to impose

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the discipline of value onto both capital and labour. Neo-liberalism seeks to accentuate the therapeutic processes contained in the stagnation of accumulation: devalorization of excess capital, adjustment of inflated prices to prices of production, and the disciplinary threats of bankruptcy and unemployment. Demands on the state are to be reduced and depoliticized through privatization and full-cost pricing. The withdrawal of capital and the state from cooperative sectoral agreements and agreements with labour allow capital to escape obsolete forms of socialization, and frees it sectorally and spatially. The discipline of international value was strengthened by the floating of exchange rates after 1971 and by deregulation of trade and capital movements (Bryan, 1995).¹ These measures have had a certain success in raising average profit rates from their low in the early 1980s to around their level at the end of the boom; however, they remain well below the level which set off the boom (Armstrong *et al.*, 1991; Durand, 1992).

The current period, then, is fundamentally one of a *crisis of social relations*; the economic crisis is an aspect of this, rather than vice versa. This is missed by many economistic accounts of 'the crisis of Fordism'. The failure of Keynesianism originated in strong socialization and the intense politicization to which this can give rise. As we shall argue, the latter is the central problem of local neo-Keynesianism. The turn of capital towards neo-liberalism is motivated above all by a wish to depoliticize economy and society, replacing institutional coordination which had become too prone to conflict by the dictates of value whose fetishistic appearance is of an impersonal and even asocial process.

4 LOCAL NEO-KEYNESIANISM EMERGES

While these class tensions led towards neo-liberalism at the national and international levels, they have allowed, and even encouraged, a development of new neo-Keynesian programmes at the local level (Gough and Eisenschitz, 1996, forthcoming; Gough, forthcoming c).

Neo-Keynesian strategies seek to improve linkages and coherence within production and reproduction within localities. While there is no simple tendency in the contemporary world towards greater economic linkages within localities (Amin and Thrift, 1992), there are many sectors which benefit from strong local linkages, whether in goods and services provision, subcontracting, quality of physical and social infrastructures, knowledge circulation or labour power; adequate coordination of these is not guaranteed by markets, and neo-Keynesian LEIs have tried to effect this coordination directly. Problems in the management of labour, as well as shortage of capital to compete effectively in a wide range of fields, have led in some cases to vertical disintegration; LEIs can supply

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supporting inputs for local disintegrated production. The mobility of money capital and lower trade barriers can, paradoxically, reinforce such local coherence by providing capital for strongly competitive local agglomerations and enabling them to have access to world markets. Moreover, the intensified competition of the long period of stagnation puts a premium on competitive advantages which may be created by strengthened local socialization.

This potentially positive dialectic of globalization and localization is paralleled by an equally paradoxical synergy between national neo-liberalism and local neo-Keynesianism (Gough and Eisenschitz, 1996). *First, neo-Keynesian LEIs compensate for some negative effects of national neo-liberalism.* Neo-liberalism leaves many gaps in infrastructure provision and training which local initiatives have addressed. Neo-liberalism has tended to encourage low-risk strategies in finance, property and infrastructure investment; local coordination has been able to create and nurture more difficult, innovative, but ultimately profitable, investment paths. In areas of decline, neo-Keynesian programmes have organized the process of disinvestment, and sought to maintain the infrastructure and labour power of the area for future investment opportunities. In these ways, *neo-Keynesian initiatives actually help neo-liberalism better to achieve its professed aims* of fostering new enterprises, encouraging capital flow between sectors and areas, and creating a fluid labour market. The neo-Keynesian view is that these things are not achieved by simply letting markets rip.

At the same time, *the class discipline imposed by neo-liberalism has reinforced the collaborative class relations of neo-Keynesianism at the local level.* Different actors and social groups have been encouraged to collaborate in the face of 'external' competitive pressure, constructing a cosy and protective localism (Gough, 1992a; PLEP, ch. 1). As a result, *neo-Keynesian LEIs have internalized some neo-liberal themes.* Local collaboration – in order to compete for internationally mobile capital; local collective services – in order to foster enterprise. Neo-liberalism favours a shift from the local state to quangos, local committees of business, voluntary organizations and community businesses. Neo-Keynesian programmes have incorporated these changes, but not simply in order to minimize the state's role but rather to find new forms for collaboration between the local state and sections of capital and labour. Neo-liberalism and neo-Keynesianism agree that 'bureaucracy' is a problem and that the local state should become 'entrepreneurial'; but whereas for neo-liberalism this means a minimal and market-driven state, for neo-Keynesianism it means new networks for intervention.

It is these forms of reinforcement of national neo-liberalism and local neo-Keynesianism that have led so many authors to characterize most existing LEIs as neo-liberal (Howl, 1985; Cox, 1993; Peck and Tickell,

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1994). But to say that two phenomena are mutually dependent is not to say that they are the same. As we argued in Section 1, the organization of neo-Keynesian initiatives inside the locality is non-market and to some extent against the market.

We have argued that the key weakness of national Keynesianism was its overpoliticization. For local neo-Keynesianism, the discipline imposed by the value relations of a period of stagnation, deepened by national neo-liberalism, has helped to avoid this danger. The *local* ambit of neo-Keynesianism has also been important. First, exposure to the mobility of capital and trade pressures are far greater for localities (even) than for nations. Local economic agencies can thus resist 'excessive' demands in the name of the locality competing 'against the world'. Second, benefits won by sections of capital and labour in one locality are not necessarily imposed on the state or capital in another locality; local economic agencies can appeal to the particularity of local needs. Third, the limited tax base and powers of the local state enable it to resist 'excessive' demands. Thus *geographical scale has been crucial to the construction of containable neo-Keynesian class relations*. A final element has been the widespread strategy of dispersing policy making to quasi-state or non-profit bodies dealing with particular aspects of the economy (e.g. training) or with particular areas. These bodies can resist new demands by pointing to the limitations of their authority.

These political strengths of local neo-Keynesianism account for its spread and the often strong consensus around it. Nevertheless, the attempt of neo-Keynesianism to balance market and non-market regulation, mobility and fixity, equality and efficiency, cooperation and discipline has led to problems, to which we now turn.

5 MOBILITY VERSUS SOCIALIZATION

We saw in the last section that the mobility of capital can help to construct locally integrated economies through inward investment, and promote the local solidarity which is at the heart of neo-Keynesian strategy. But the mobility of capital and labour also undermines this strategy.

Neo-Keynesian LEIs try to marshal firms and labour power to enhance their efficiency; yet these still operate according to their own lights, so that the jigsaw often fails to be completed. An integrated industrial district, for example, may be undermined by the defection of two or three key firms, or, especially in large cities, by labour market competition. Where an attempt is made to construct a locally integrated sector from scratch there is a chicken-and-egg problem that the whole cannot function until the parts are in position, and vice versa (Amin and Robins, 1990; Amin and Thrift, 1992; for the case of high tech, see Fach

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and Grande, 1991; Malecki and Nijkamp, 1988). Yet the powers of local economic agencies are insufficient to carry out most of the necessary investments themselves. This is not just a problem of assembling firms and services with particular competencies; it is also often a matter of convincing them to adopt a cooperative and locally integrated strategy, rather than one of mobility, cost minimization and far-flung subcontracting. This ideological change is hard to achieve without successful, local experience to point to.

These problems are exacerbated by neo-liberalism. Its project of capital mobility and private responsibility and its attacks on the institutional shackles on capital built up during the postwar boom equally weaken the new forms of socialization attempted by neo-Keynesian LEIs. Neo-liberalism encourages firms to focus on short-term profits rather than the long-term health of the local economy, and on liquidity and speculation rather than productive investment. The cuts in spending imposed on local governments undermine the latter's economic and infrastructural programmes, while enforced privatizations prevent the planning of infrastructures as part of local strategies (Goetz and Clarke, 1993). The deflationary stance of neo-liberalism often produces rapid devalorization of weak local economies which makes neo-Keynesian reconstruction more difficult.

These problems have been particularly acute in Britain due to capital's liberal traditions and spatial fickleness and to the weak cooperation between firms, which underpin the strongly neo-liberal national regime (Gough and Eisenschitz, forthcoming). But they are present in all countries (Gough, forthcoming c).

But it is not merely that local socialization is undermined by mobility; local socialization can promote mobility, and thus undermines itself (see e.g. Saxenian, 1985). The more successful LEIs are in fostering the growth of firms, the greater their options and the more spatially mobile they become. Success often means takeover by larger, more mobile capital. Local promotion of venture capital creates equity structures which, in comparison to loan funding, facilitate transfer of ownership. In other words, successful policies for stimulating small firms depend on capital markets which do not respect place. A similar logic applies to labour power: increased skill makes the worker more mobile, so that training schemes in weaker areas can end up benefiting the strong through migration. In short, in capitalist society mobility is an integral part of success for both capital and labour – a contradiction of 'local success'. The tendency of neo-Keynesian localism to promote mobility is exacerbated by its tendency to deepen geographically uneven development; to this we now turn.

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6 NEO-KEYNESIANISM DEEPENS UNEVEN DEVELOPMENT

The present long wave of stagnation has been marked by increasing inequalities both socially (between income groups, men and women, ethnic groups) and geographically (between localities, between DCCs and LDCs), a trend exacerbated by neo-liberalism. A central promise of local neo-Keynesianism is that it can combat this tendency and achieve socially and geographically more balanced development; for labour it promises to root capital in weak local economies (Labour Party, 1991; Harrison and Bluestone, 1988; Peck and Tickell, 1994). But in reality neo-Keynesianism tends to promote uneven development, even though the generative mechanisms are different from those of neo-liberalism.

Neo-Keynesian LEIs tend to increase the profitability of strong economies more than the weak. Addressing socialization is particularly effective in strong local economies with already high internal integration and complex interdependencies. Local economic agencies can help to prevent bottlenecks in infrastructure and labour power, with the confidence that this investment will be used productively by the private sector. On the other hand, as we noted in the last section, in local economies with poor internal linkages, knowledge infrastructure and skills, the control of LEIs is inadequate to establish a virtuous circle. In areas which capital is abandoning, neo-Keynesian policies may slow down the process of devalorization; but in the medium term they may function to diffuse opposition to disinvestment by large capital and thus politically to ease it (*PLEP*, pp. 155–8). Thus neo-Keynesian programmes practised throughout the country tend further to strengthen strong localities, and increase the flow of both capital and technical rents from the weak to the strong (Hilpert and Ruffieux, 1991; Gough, 1994, forthcoming b).

For capital, this deepening of uneven development and mobility has both benefits and liabilities. While strong focuses of accumulation may benefit from local policies, overall uneven development worsens inflationary pressures in them (Gough, forthcoming b); in weak areas the premature devalorization of capital, including infrastructure, may be exacerbated. For labour, uneven development worsens life chances for many, and, as 1980s Britain showed, creates damaging political divisions.

That neo-Keynesianism promotes geographical uneven development despite its best intentions should not surprise us: Keynesian national policies in the postwar boom systematically produced spatially uneven development. The countries with the class relations most favourable to accumulation (Germany and Japan particularly) were able to organize stronger national socialization than others (the US and Britain

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particularly), thus achieve faster accumulation, and on this basis reinforce their class cooperation and invest in further socialization, and so on in a cumulative spiral. This logic is now being reproduced at the inter-local level. Keynesian regional policy in the boom had similarly uneven results. The policy of growth poles, which foreshadowed the localist focus of current policy, was used with the aim of aiding lagging regions, but often resulted in sharply uneven development *within* the region. The Keynesian theory of cumulative causation in fact suggests that the space economy systematically develops in an uneven fashion, contrary to marginalist theory; yet this very process was to be exploited by growth pole policies. This contradiction was reflected in the bifurcation of Keynesian spatial policy in the boom: alongside the attempt to *exploit* cumulative causation through growth poles was the attempt to *combat* it through altering cost surfaces by regional subsidies; on the one hand a local coherent economy, on the other capital mobility. Recent accounts of regional policy in the boom (e.g. Moulaert and Swyngedouw, 1991) tend to focus on its promotion of capital mobility, neglecting the Keynesian attempts, and failures, to create coherent local economies.

Local neo-Keynesian programmes also tend to exacerbate inequality within the labour force. Instead of neo-liberalism's crude and ineffective use of the market and unemployment to limit wage rises, local neo-Keynesianism attempts to link wages more closely to profits through profit sharing, worker shareholding and cooperatives (Oakeshott, 1990). But intensifying the link between wages and profits subjects wages to the highly uneven development of profits between firms, sectors and areas, causing wage inequalities to increase (Gough, 1986). This is particularly so in periods of stagnation when the divergence of profitability between firms tends to increase (Bluestone and Harrison, 1987).

Neo-Keynesian local initiatives in reproduction tend to have a similar effect. They seek to make training and education serve dynamic sectors of capital more effectively, in contrast to neo-liberalism which uses them merely to reproduce the wage relation at a basic level. But the consequence is that both the delivery and results of these services become tied to, and dependent on, the sectorally, spatially and socially uneven development of production. In Britain training schemes, even those ostensibly aimed at oppressed groups and the unskilled, are disproportionately taken up by the better qualified (Davies and Mason, 1986). In order to avoid this result, the state would have to intervene more strongly into production, directly to combat its uneven development, and into reproduction, directly to tackle the ways in which family and the inheritance of skill reproduce gender, racial and class inequality. But these would be socialist interventions going well beyond the class 'balance' of neo-Keynesian politics. Neo-Keynesian modulation of labour markets thus tends to benefit the strong.

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Again, the experience of Keynesianism in the boom should prepare us for this outcome. The professed universalism of the postwar welfare state and urban policy hid highly uneven outcomes: better for middle than working class, for skilled than unskilled, for men than women, for white than black (Rex and Moore, 1967; Hall, 1973; Pahl, 1975; Wilson, 1977; Townsend, 1979). This was because, on the one hand, the state tailored its policies to patterns of accumulation, and internalized oppressive relations within its practices, and on the other because state interventions were too weak to confront the social roots of inequality. Many present-day accounts of the boom, based on accounts of 'Fordism' as universalist and homogenizing, ignore the record of systematically *uneven* development in this period.

The unevenness of postwar development was somewhat offset by increases in state transfer payments to the poor; but in the present period of stagnation these have, inevitably, been reduced, and they are anyway an aspect of the Keynesian heritage which local neo-Keynesianism rejects.

The management of labour power and the wage relation by neo-Keynesian local strategies, then, links these more strongly to the uneven development of accumulation, thereby increasing both spatial and social inequality. Neo-Keynesian policies fail to fulfil their promise to ameliorate inequality not merely because they are too weak in the face of neo-liberalism and capital mobility (Section 5), but also due to their very successes.

7 PRAGMATISM AND FRAGMENTATION VERSUS HOLISM: HOW FAR DO NEO-KEYNESIAN PROGRAMMES DARE TO GO?

Neo-Keynesian local policies in Britain have failed to live up to their promise both in tying capital to the locality and in ameliorating uneven development. These failures tend to result either in the abandonment of policies, or conversely in attempts to strengthen them in the hope of increasing their effectiveness. In the latter case, the logic of strengthening the socialization of production pushes local agencies into increasingly coordinated and strategic intervention. But this increases the danger of politicization, which we have seen was the Achilles' heel of Keynesianism during the boom: greater coordination serves, but can also conflict with, private appropriation and the discipline of value. We explore this contradiction in this section and the next.

A key political strength of neo-Keynesian LEIs is that they seem to address manifest local problems in an empirical, undogmatic way. This political approach has an organizational correlate: the implementation of LEIs is often split up between separate agencies (whether departments

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of the local state, quangos, public-private partnerships, or voluntary bodies) dealing with particular functions. But interventions then tend to be fragmented by sector, area and factor of production. While social democratic strategies *include* policies for both increased competitiveness and welfare, these two spheres are seldom *coordinated* in policy implementation. This lack of holism greatly limits the effectiveness of each policy and agency (PLEP, pp. 255-7). For example, training schemes to upgrade local skills do little to increase profitability without parallel changes in production (management of the work process, equipment, product strategies, etc.), and are often rendered useless by inadequate policies for reproduction; thus training schemes carried out in isolation fail to achieve their aims. Similarly, the coordinated restructuring of sectors or areas which local neo-Keynesianism, at its most ambitious, aspires to promote (Gough and Eisenschitz, 1996) is weakened by its fragmentation of agencies.

Because of its long-term approach, neo-Keynesian strategy tends to increase the turnover time of capital, in counter-motion to the attempts of many individual capitals to reduce their turnover times (Gough, 1991, forthcoming b). The danger of these long turnover time investments failing to be fully realized intensifies the pressure on neo-Keynesian programmes to increase their strategic planning and coordination.

This tension was manifested in the evolution of neo-Keynesian LEIs in Britain during the 1980s. Many policies were seen as having failed because of being insufficiently comprehensive: more and more elements were added to small firm support; property provision evolved towards managed workspace with added services; equity finance was added to grant and loan funding; mainstream agencies adopted the Left's industry support centres with their comprehensive range of services; and so on. Attempts were made to strengthen coordination of all economic agencies within the locality, notably through initiatives by Business in the Community, the Civic Trust's Development Trusts, and the government's Task Forces and City Action Teams. But the only agencies which could undertake really serious coordination were the local authorities (National Audit Commission, 1989), which have been shackled by the neo-liberal central government precisely because their operations had become too comprehensive and political. The City Challenge programme of the early 1990s marks the recognition of this problem by giving local authorities a key role, although under strict constraints intended to rein in their ambitions. Thus the weakness of the agency, local government, which could effectively increase the coordination of LEIs is not a coincidence, but a reaction to the problems of overpoliticization experienced in earlier periods (Section 3).

Centrist programmes are reluctant to set out clear strategic objectives for the local economy since these imply winners and losers, and could

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upset the local consensus. To be effective these programmes need to be tough in resisting sectional demands; but this goes against their approach of 'common sense', non-controversial policies which unite the whole locality. Thus while the technical effectiveness of policies tends to require deeper and wider intervention, this is blocked by fears of politicization on the part not only of central government but of local agencies themselves.²

One way in which these political tensions are dealt with is through an elitist and secretive approach to neo-Keynesian LEIs. The state carries out its policies through the executive with little legislative scrutiny under the rubric of commercial secrecy, or decisions are made by unelected committees behind closed doors. Economic planning may be concentrated in the office of the chief executive or mayor; in Britain there have been proposals to create mayors with powers on the US model in order better to override opposition. Since these methods tend to exclude labour and residents, we have a tendency to slide from a social-democratic to an elite institutionalist approach. Another variant is to create a collegiate 'regional leadership', whose members may be drawn from local residents and labour as well as business and the state, but who are to agree on policies and push them through against opposition (McKinsey, 1994) – this variant is social-democratic in form, elite in content. Thus, in various modes, the political tensions of coordinated LEIs lead to suppression of democracy (*PLEP*, pp. 179–82, 258–9).

These are problems of coordination within the locality; but there are also tensions surrounding coordination between localities, to which we now turn.

8 SPATIAL COORDINATION AND THE PROBLEM OF POLITICIZATION

There are problems of compatibility between neo-Keynesian policies and other local, regional and national policies. These can be overcome, in principle, through greater coordination; but this again runs the risk of over-politicization. There are three aspects to the problem.

(i) Socialization and the overproduction of productive capital

Competition between localities through attempts to create integrated production complexes without coordination between them exacerbates the tendency towards overproduction of productive capital. For example, the uncoordinated attempts of major provincial cities in Britain to attract business services through integrated central area programmes contributed to the overproduction of offices in the late 1980s. The same danger is evident in the ubiquitous investments in tourism and in high technology.

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As distinct from neo-liberalism, which encourages wage-cutting and labour-intensive strategies, neo-Keynesian programmes tend to increase the organic composition of capital by promoting private fixed investment, R&D, training and physical infrastructure. This runs against the therapeutic devalorization of capital values by the crisis and neo-liberalism (reduction in the capital with a claim on given mass of surplus value). If the neo-Keynesian programmes fail to produce a boost to profits, they therefore exacerbate low profit rates (*PLEP*, pp. 265-9).

(ii) The need for regional and national policy

In order that socialization may be effectively addressed at the local level it must also be tackled at the regional and national levels. For example, many types of technological development, knowledge diffusion and adaptation, and production of the corresponding labour power, need coordinated action at different spatial levels. Local strategies are often powerless in the face of changes within and across *regions*, such as the shift in manufacturing investment in Britain from urban to rural areas (Fothergill and Gudgin, 1982). In Britain, neo-Keynesian local strategy continually runs up against the traditional *national* structures of capital – the overseas orientation, the bias in R&D towards armaments, weak national industrial policy, and so on (Gough and Eisenschitz, forthcoming). Indeed, one could extend the argument to the international level: monetary integration within the European Union exerts a powerful deflationary influence and restricts neo-Keynesian industrial policy at both national and local levels (Williams *et al.*, 1991; *PLEP*, pp. 261-3).

The logic of neo-Keynesian LEIs is therefore to challenge neo-liberalism at the national (and EU) level. Yet we have seen that the ability of local neo-Keynesian programmes to manage sectional demands has depended precisely on the discipline exerted by national neo-liberalism and on the implementation of neo-Keynesian strategies at a specifically *local* level. Progressive measures such as crèches are containable when implemented locally 'to respond to specific local circumstances'; but Keynesian national policies would encourage universalization of such measures, with an open-ended dynamic. The technical effectiveness of neo-Keynesian policies depends on their extension to the national level; yet their political strength lies in their localism.

(iii) Coordinating spatial levels

If socialization were to be addressed at the regional and national levels, this would pose problems in the division of powers between the spatial levels. For example, 'rational' plans for capacity cuts in an industry will generally be very different when carried out at the local, regional

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and national levels, as is apparent from the rows between the EU and national governments over such schemes. These tensions tend to politicize the process further, since sections of capital and labour stand to gain differentially from the plans made at the different spatial levels. Proponents of strong neo-Keynesian LEIs like to picture a snug integration of local, regional and national socialization (Gilhespy *et al.*, 1986: ch. 3; Sengenberger, 1993; Peck and Tickell, 1994); but this ignores the way in which such integration elicits political conflict.

These arguments are apparently contradicted by the case of Japan: Japanese LEIs have achieved a remarkable degree of spatial coordination. They attempt to redistribute economic activities towards the weaker regions. Central government allocates sectors to regions so as to minimize inter-regional competition and encourage regional specialization, thus allowing the regions only limited autonomy in their choice of sectors (Tatsuno, 1991). Thus nationally coordinated inter-regional policy has grown in strength rather than declined, and has trespassed onto regional autonomy.

But while this is a sharply different pattern to Europe and North America, it tends to confirm the underlying processes we are proposing. In most other countries such spatial coordination would have elicited conflicts between capital and labour, between sections of them, and between central and local governments. By contrast, in Japan these have been contained by longstanding elite institutionalist structures of decision making; that is, the national class relations are such that a high degree of coordination is possible without dangers of politicization. The still strong rate of accumulation in Japan (at least up until 1991) has also helped to weaken conflict over resources; by contrast, in other countries the weakness of accumulation increases the risk that spatial coordination will involve losers and result in serious conflict. Even so, Japan is not avoiding the new processes of spatially uneven development: over-accumulation in the central megalopolis is intensifying; many peripheral regions are confined to low-skill activities, despite the new initiatives (Morris-Suzuki, 1990); and regions, particularly in the megalopolis, are taking initiatives in competition with each other (Tatsuno, 1991). Thus the problems for national accumulation of uneven development by LEIs exist even in this most favourable case.

There is a striking similarity between the contemporary Japanese programmes and the period 1969–75 in West Germany. A highly integrated and ambitious federal-Länder collaboration for industrial restructuring, under the dominance of the centre, was tried as a response to emerging accumulation problems. The strong coordination involved in this programme was based on the distinctive class relations of postwar West Germany, including the system of co-determination in industry and industrial planning by the banks and to some extent the state. However,

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even in this favourable case, weakening accumulation in the recession of 1974–5 unleashed politicization which led to the programme's abandonment (Esser and Hirsch, 1989).

It is not, then, that coordination of Keynesian programmes between national and local levels and between localities is impossible in principle; rather, it is that this depends on the national class relations being able to contain the dangers of politicization. We have seen that the advent of neo-liberalism worldwide was a response to capital's problems with just such politicization. While neo-liberalism has been successful in imposing a considerable degree of discipline on both labour and individual capitals, this has not obliterated class struggle, either between the classes, within them, or between them and the state. It is therefore not at all obvious that the existing degree of class discipline would hold if strong and coordinated neo-Keynesian policies were applied at both local and national levels. This is particularly so given the acute competition which the long wave of stagnation engenders.

Neo-Keynesian strategies, then, suffer from a tension between the logic of increasing socialization, coordination and holistic strategy *and* the increased sectional demands, conflict and politicization that this would unleash. In neo-Keynesian LEIs in Britain, this tension has resulted in a wide diversity of degrees of intervention and coordination, as local agencies find different points of 'balance' depending on local economic and political conditions. This point of balance also tends to be unstable over time, as local agencies either strengthen their interventions to increase their effectiveness or recoil from the exposure this implies and withdraw from ineffective policies (PLEP, pp. 20–7, 269–73).

The same tension means that the future of neo-Keynesian LEIs in Britain is problematic. If intervention is deepened it risks disturbing the degree of social discipline which neo-liberalism has so far achieved. The unity of the locality and communities which neo-Keynesian local programmes have promoted could then backfire: local collective organizations of capital and labour could fight for their distinct interests rather than 'the interests of the locality as a whole'. On the other hand, neo-Keynesian LEIs may retreat into fragmented interventions whose failure will cumulatively discredit them, just as the national Keynesian project of the period 1958–74 was discredited by its failures (Newton and Porter, 1988). They will then be more vulnerable to neo-liberal pressures, particularly underfunding. The happy cohabitation of national neo-liberalism and local neo-Keynesianism may well not survive these dilemmas.

9 THE LEFT SOCIAL-DEMOCRATIC STRATEGY

We have argued that neo-Keynesian local strategies suffer from a number of important contradictions: they are undermined by capital mobility

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which they themselves exacerbate; they lead to social and spatial uneven development; they suffer from insufficient coordination both within localities and between them; and yet there are strong political barriers to increasing coordination. The stronger the strategy, the greater are these problems; thus they are particularly marked in the Left social-democratic variant (*PLEP*, ch. 8). The constraints on capital which it proposes make it especially vulnerable to actual or threatened mobility of capital. If it succeeds in its aim of building highly integrated, specialized economies, it exacerbates geographically uneven development; for example, Murray's (1989) proposals for developing a high-tech sub-region in northern England avowedly deepens unevenness within the region (cf. Murray, 1992; for examples in France and Germany see Neumann, 1991). Through worker participation, through greater institutional involvement of labour in LEIs, and through propagating a strong notion of citizenship (Cooke, 1989b), it ties the fortunes of workers more closely to those of their employer, often more effectively than the purely disciplinarian approach of neo-liberalism; it thus generates social and geographic inequality (Harris, 1986; Eisenschitz and North, 1986; Gough, 1986). The Left strategy is particularly dependent on coordination with higher spatial levels and congruent national policies (Peck and Tickell, 1994), and thus threatens to elicit acute conflict.

While some versions of the Left social-democratic strategy assume that progressive outcomes will result automatically from strong cooperation between capital and the state, others argue that pressure and active involvement will be needed from unions and community organizations (Lipietz, 1992; Wainwright, 1994; Geddes and Erskine, 1994; Amin and Thrift, 1995). This strategy has a number of possible outcomes, each different from that intended. First, if popular pressure takes the form of imposing outcomes on capital which it has not itself chosen, then capital is likely to back off. In the present period even the most 'progressive' capital wants to maintain discipline over its labour force and local political environment (Section 3), and most have enough locational choices to refuse serious local impositions. In the absence of popular control over capital at national and international levels, in the medium term local people will be made to suffer for militancy. Second, even without withdrawal of investment, capital and the state may block off democratic avenues of influence in order to 'get on with the job unimpeded'; this happened, for example, in the Greater London Council's industrial initiatives (FTATU, 1986; *PLEP*, pp. 198-200; cf. Section 7). Third, if the involvement of popular organizations is *not* oppositional, it has the effect of drawing local people into closer collaboration with the logics of capital we have described, that is, uneven development, overaccumulation and premature devaluation; popular involvement then functions to legitimize these outcomes.

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The theoretical root of these failures of popular regulation is that the latter is seen as a 'political' control over 'economic' processes which are external to it (e.g. Amin and Thrift, 1995). But capital itself always embodies not merely economic but social and political power over labour, especially in times of crisis; the Left social-democratic strategy for LEIs, since it wishes to strengthen local capital accumulation, cannot radically challenge that power.

10 CONCLUSIONS

The promise of neo-Keynesian LEIs has been to counterbalance and complement the value regulation of neo-liberalism with an attention to the use-values of production, to its technical and organizational substance. Neo-Keynesian strategies balance private interests with the socialization of production, capital in liquid and money forms with productive capital, mobility with fixity, the raw discipline of value with cooperation between social actors. The promise of neo-Keynesianism has rested on the *interdependence* of these poles. Yet neo-Keynesian strategy cannot escape the ways in which these are also oppositions. Mobility often undermines territorially embedded socialization. Non-market coordination between capital, labour and the state can undermine the discipline of value. And to the extent that socialization is successful, it tends to reinforce rather than overcome such traits of successful accumulation as uneven development, social inequalities and class domination. The theoretical mistake of supporters of neo-Keynesian strategy is to see the use-value side of the economy (production, technique, skill, productive cooperation, concrete territories) as either *in harmony with* value aspects – the elite and social-democratic view, or as actually *dominant over* value – the Left social-democratic view (GLC, 1985: Introduction). But value and use-value aspects are not only mutually dependent but also in conflict, that is they form contradictory unities. The neo-Keynesian project is coherent only if one treats the unity of value and use-value aspects as non-contradictory.³

These lacunae are bound up with a weak analysis of the state and specifically of neo-liberalism. We have argued that neo-liberalism expresses regulation by value in a sharp form. Neo-Keynesian strategists, in correctly criticizing the productive inefficiencies of neo-liberalism, neglect its logic from the point of view of class relations (e.g. Peck and Tickell, 1994). Underpinning the debate between neo-liberalism and Keynesianism lie contradictions of the relation between state and civil society. The state may further both accumulation and legitimation through strong policies for socialization; yet these undermine the discipline of private responsibility and its representation in value. The state may improve the efficiency of its interventions through greater

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coordination; yet avoidance of politicization and excessive growth of the state leads to fragmentation of its activities. We have seen how these contradictions of the state surface in the experience of neo-Keynesian LEIs. Again, Keynesian strategists abstract the productive side of the state from its subordination to market discipline, and the rationality of a holistic approach from its conflict with private responsibility. The neo-Keynesian project of a rational, controllable and cooperative local capitalism does not escape these contradictions.

Finally, we believe that the approach we have used here is a fruitful one for future research into LEIs and global localization more generally. Too much of the existing literature either attempts to read off policy from 'new models of economic organization', or proposes progressive political controls on local economies without considering their basis and effects; from opposite directions, both approaches separate the economic from the political. A focus on social relations of production and reproduction at different spatial levels, including their inscription in value relations, can enable a better-grounded politics of locality.

NOTES

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- 1 Neo-liberalism and the 'weakening' of the nation state are often pictured as a *response* to pressures from a technically or 'economically' determined internationalization of capital. In our view internationalization is, at least in part, a political strategy and an *integral part* of neo-liberalism.
- 2 The correlates in social theory of this tension between fragmented and holistic policy making are explored by Wright Mills (1970).
- 3 Cole *et al.* (1983) discuss this 'productivist' bias in Keynesian and Ricardian economics. Fagan and Le Heron (1994) rightly criticize the tendency of contemporary economic geography to privilege productive over money capital. They argue that national regimes are centrally concerned with, and mediate, international flows of commodities and money capital. But they underplay the extent to which national (and regional) regimes are undermined by these flows.

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