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THE PURPOSE OF LOCAL INDUSTRIAL POLICY

JAMIE GOUGH

It is argued that the local investment strategy proposed by Best in *Local Economy 1* is incapable of creating jobs in the way that it claims, and that it tends to perpetuate and create divisions and inequalities within the workforce. Instead local investment strategies need to be centred, not on increasing productivity but on helping to strengthen the collective organisation of workers. Some ways are discussed in which local authorities might begin to do this but to carry this through consistently will require national planning of industries and compulsory powers over investment decisions by private firms.

INTRODUCTION

In his article in *Local Economy 1*, Mike Best argued for an approach for local enterprise boards based on strategic planning at a sectoral level⁽¹⁾. He argued that a major failing of British manufacturing over a long period has been its failure to make long-term, albeit flexible plans; and, a connected failure to coordinate the plans of firms within the same sector in order to minimise wasteful competition and cooperate on joint projects. This has been a major factor in the decline of the competitiveness of British industry relative to countries such as the US, Japan, Italy, France and West Germany where such planning and coordination has taken place, with or without public sector involvement.

I wish to argue for an alternative approach to local sectoral planning.

The central aim of Best's strategy is to improve productivity and efficiency, and thus profitability. But he argues that this also has benefits for workers: firstly, in producing more jobs (p74) and secondly in producing jobs that give greater "social power" to workers (pp67,71). I think that he is mistaken.

PRODUCTIVITY AND JOB CREATION

Local authorities often claim that interventions which increase efficiency and productivity create jobs. Best argues (p74) that the "apparent contradiction" between modernisation and job retention and creation can be overcome providing that "enterprises orient themselves towards the new competition" by successful strategies leading to expanding output and employment, in the case of declining industries via diversification. Employment creation through these means is certainly possible within individual enterprises.

It can be argued that restructuring towards 'flexible specialisation' can increase aggregate employment because it is the key to overcoming the present stagnation of the international capitalist economy. In this view the fundamental origin of stagnation lies in the difficulties of transforming the economy from mass production of standardised products with largely semi-skilled labour ('Fordism') to batch production of varied products with largely skilled labour. If this view is correct, then promotion of flexible specialisation must create jobs in the medium term, even if it involves temporary job shedding in the particular enterprises concerned, or in competitor firms.

The problem is more fundamental. Underlying the present stagnation is an average rate of profit in the major capitalist countries which is very low by historical standards, following a continuous decline from the early 1950s onwards. Neither rises in productivity nor increases in the rate of investment resulting from strategic planning necessarily overcome the problem of low profitability. Increases in labour productivity do not of themselves increase the *aggregate* profit produced in the economy. To have this effect, they must be coupled with holding back real wage rises to less than the productivity increases, for example through weakened trade union organisation and high unemployment.

If the international economy were making a sustained recovery, restructuring leading to productivity increases would often contribute to that recovery, through increasing profits for the participating firms and thus encouraging others to invest. But in a situation like the present, where there is low average profitability and where output growth is slow, such restructuring is more likely to lead to *cuts* in employment through increasing overcapacity and obsolescence of old plant and through increasing capital intensity.

Geographical competition

A fall-back argument is that a Best-type strategy can create jobs in a local economy by increasing competitiveness relative to other localities, or in Britain by increasing competitiveness relative to its international rivals. The main point here is that a strategy for increasing national or local competitiveness is a strategy for *shifting* unemployment elsewhere. As a

job 'creating' strategy, it does not differ in kind from the beggar-my-neighbour policy of attracting foot-loose investment via promotion and incentives. To the extent that the strategy justifies itself by its 'employment creation' effects, it would be necessary to know which jobs had been displaced elsewhere and to be able to argue that they were less important than local jobs. Neither Best, nor local authorities which have claimed to create jobs via increased local competitiveness, have provided such a justification.

Flexible specialisation and the power of workers

Best argues that the 'new competition' tends to strengthen the bargaining position of workers firstly through the work process, in which "the integration of planning and doing at the shop floor level . . . enhances the competence and social power of workers" (p71) and secondly through inter-firm cooperation, which means that "firms compete within a social setting which constrains the form of acceptable competition" so that "family, ethnic or religious ties" can prevent undue exploitation of labour (p67). Best uses the 'Third Italy' as his major example and model for local intervention. Partly on the basis of the region's great commercial success over the last two decades, wages levels are higher than the Italian average, and unionisation extends to smaller firms than elsewhere⁽²⁾.

But even here, all is not rosy. Firstly, there are very unequal opportunities for workers from different social groups, essentially because bargaining power is informal and derived from the *individual* skill of the worker rather than from *collective* bargaining. Access to skilled jobs and jobs in which one can acquire skill is strongly dependent on family connections, on gender, on age and child care responsibilities, and is worse for immigrants from the Italian South than for local people⁽³⁾. As a result, differentials in wages and other working conditions are very pronounced.

A second, related, problem is that there are large differences of wages, conditions and security of employment between firms, with bargaining at the firm rather than industry level. If designs are unsuccessful, especially in fashion industries, wages, conditions and often jobs suffer. And due to one of the mechanisms used to deal with fluctuations in demand: sub-contracting to peripheral firms, often in towns and villages surrounding the 'core' industrial district, workers in these firms have little security of employment. Taken together, this makes collective organisation of workers across the industry extremely difficult. Obviously, the 'Third Italy' is only one example of the kind of industrial strategy Best proposes but it does look as though a strategy of flexible specialisation, through basing bargaining power on individual skill and through tying the fortunes of workers closely to the success of product design and marketing in individual enterprises, leads to high differentials and little solidarity between groups of workers.

In Britain such a strategy would be all the more serious in a situation where both private restructuring and Conservative Government policy are tending to increase differentials and divisions within the labour force and to weaken trade union organisation.

AN ALTERNATIVE APPROACH

The aims of local intervention

Best's strategy *can* contribute to increases in productivity and to increasing the skill content of jobs but this will not be possible across the whole of the economy and it cannot achieve the key aims which it sets itself of creating jobs and increasing the 'social power' of workers. Local interventions aimed at increasing productivity and skill are perfectly legitimate but we should accept that in general they do not create jobs nor strengthen workers' social power, and may in fact do the precise opposite.

To begin to achieve Best's key aims requires a different method: local intervention should be centred on *economic changes which can directly improve the basis for workers' collective organisation*. Collective organisation should be central for a number of reasons. It is the only way in which workers can defend and push forward their interests when these diverge from those of their employers. Whereas the dependence of employers on the skills and cooperation of some of their workers, highlighted by Best, is not an adequate basis for pursuing the independent interests of workers. Moreover, stronger trade union organisation is relevant to effective strategies for job creation. A medium term job creation strategy, as Glyn⁽⁴⁾ has persuasively argued, needs to centre not on productivity and competitiveness but on radical reflationary measures; to be effective in present circumstances these would need to include stringent controls over the City, over major industrial firms and over international trade. A necessary political underpinning for this strategy is therefore a strengthening of the trade union movement.

Adopting this aim does not make competitiveness irrelevant: it is generally crucial, in the short or long term, to the survival of any form of restructuring undertaken. But the important point is to be clear on the basic aims of the strategy.

IMPLEMENTING THE APPROACH

At the present time, many changes are taking place in the organisation of production which weaken trade union organisation. One such change is an increase in many industries in the number of small firms, and a tendency of larger firms to split up their production between an increasing number of workplaces. This fragmentation of ownership and production makes trade union organisation more difficult. In

bargaining, multi-site employers can play off workforces at different sites against each other, and small employers can more plausibly use the threat of competition from other firms. A second important type of restructuring which weakens trade union organisation is the transfer of production from a strongly organised to a weakly organised workforce. For example, the current shift of manufacturing production from conurbations and large towns to small towns and rural areas, like the location of new manufacturing investment in the South-east during the 1930s, has been partly motivated by a search for a workforce with little history of trade union organisation. These are processes that a progressive local authority investment strategy should aim to oppose. How could it do so? The following methods may be suggested:

Intervene to combat fragmentation

The fragmentation of ownership and production can take many different forms, and these affect the way in which local authorities and enterprise boards can intervene to combat it. For our purposes here one can distinguish three patterns:

(a) small firms producing their own designs

These firms are important within many capital and consumer goods industries; they are the firms on which Best's strategy is centred. Local authority investment can help to increase the scale of ownership, by giving help to expand firms' design and marketing capacity, concentrating funds onto only a few firms in the locality, and through encouraging mergers, particularly where these involve design and marketing expertise. (For an example of this strategy applied to a highly fragmented industry see GLC, 1985⁽⁵⁾).

(b) small firms supplying the final market, but with low design content

This type of firm is important in many service sectors (shops, catering, repair work, and so on and in manufacturing with a service aspect (for example, jobbing printing, custom steel work). Fragmentation arises here through geographical division of markets, and sometimes through low economies of scale in production. One form of ownership, not available in (a), through which workplaces may be brought together is franchising, possible here because of the relatively standardised nature of the product or service. Directly owned or franchised chains may be able to out-compete independent, lower wage units through economies of scale in marketing, and sometimes in production.

(c) small firms operating as sub-contractors to large firms

These are distinguished from jobbing producers in (b) by the fact that they do not have a geographical 'patch', and are dependent on only a few customers. The contracting firm may be a retailer or wholesaler, or itself a producer. Local authorities face particular problems with this group, because it is to a considerable extent controlled by contracting firms so large that local government cannot influence them significantly. It may

be possible for the local authority to provide the resources to better subcontracting firms for expansion, via extensive investment or improvements in productivity (since here the efficiency of production itself is the key to competition).

Intervene against a shift of production to less organised workers

The most obvious way in which local authorities can intervene on this issue is to support well-unionised enterprises threatened with competition from poorly-organised ones. It *may* be possible to exploit quality competition and skill against cost undercutting, but such opportunities may not always occur. An alternative approach is to attempt to improve organisation within poorly unionised areas to which production is being moved, for example, by combating fragmentation in the ways already discussed. However, in many cases the commercial success of these areas *depends* on their poor labour organisation, and in the absence of a national, and compulsory plan, production will go elsewhere.

A more clear-cut (though negative) point that follows from this is that local authorities should refrain from supporting firms which are using low wages and poor labour organisation to undercut firms with better conditions. The fact that local authorities, because of their limited resources, are often dealing with small and poorly run firms, or firms in difficulties, makes this a real danger.

Often a firm or sub-sector in a locality is undercutting a better firm in another locality, of which the local authority may be ignorant. This is one reason for local authorities to collaborate in building up a national view of industries and sub-sectors, as a basis for intervening in them. An association of local authorities, Local Action for Textiles and Clothing, has begun to do this. This work has indicated, for example, that dye houses in the East Midlands are tending to undercut those in Yorkshire on the basis of inferior conditions, and the consequent need for caution in investment in this sub-sector. It is clear, however, that only compulsory powers over investment throughout the particular industry at a national level can *prevent* shifts of investment away from well-organised workers.

Local authorities should not aid such firms, seeking to invest at new sites away from existing well-organised ones, to play off the workforces of existing sites against each other for new investments, or to use the threat of subcontracting work against the existing workforce.

TRADE UNION INVOLVEMENT AND THE NEED FOR CENTRALISED PLANNING

I have advocated using investment policy to back up some basic trade union policies. This does not mean adopting an uncritical attitude to demands made by trade unionists; these demands can themselves often

be divisive between workers in different firms or workplaces or from different social groups. But it clearly does mean a need for close collaboration and dialogue with workers in the firms and sectors concerned. A policy which sets out with the kind of aims I have argued for has the *ability* to involve trade unionists, since it addresses directly their immediate concerns. It should therefore be possible to go beyond a purely formal 'consultation' or 'participation' approach.

Mike Best's strategy, on the other hand, tends to exclude trade unionists, particularly lay members, from active involvement in local authority investment decisions. His account of strategic and sector planning in other advanced capitalist countries is not encouraging; in none of the cases is involvement of the trade unions mentioned. This is not coincidental. If the essential aim is to increase competitiveness, with benefits to labour regarded as a spin off, then labour's representation is, at best, optional.

To the extent that local authority restructuring is against the direction in which private sector management wishes to go, the present powers of local government – essentially limited to the 'carrot' of grants and loans – will often be insufficient. A policy directed against divisions within the labour force and weakening collective organisation will in many cases only be attainable by use of compulsory government powers. Carrying out the strategy in a number of 'exemplary' firms will not necessarily mean that the example will be imitated elsewhere. We have already seen examples of the need for powers, including at the national level, to prevent shifts of production and subcontracting from strongly to weakly organised labour. And while I have pointed out ways in which this type of restructuring may be able to compete with or out-compete rival firms, this will not always be the case; a plan for subsidy within and across industries is therefore needed.

Local authorities can, with their existing powers, undertake some restructuring initiatives which can help to strengthen collective organisation. But they should not imagine or pretend that this process can be carried through in any consistent way without national planning involving compulsory powers. Local authority intervention to strengthen the basis of collective organisation can help build pressure and support within the trade union movement for powers of this kind.

NOTES AND REFERENCES

Jamie Gough worked in the Industry and Employment Branch of the Greater London Council and is now a researcher at Middlesex Polytechnic. He is author of *A Socialist Strategy for Local Government Investment*, Labour Party Economic Strategy Group paper (1986) and 'State Sponsored Restructuring and Socialist Strategy', *Capital and Class* (forthcoming).

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