ECONOMIC PERSPECTIVE 1

REGIONAL ECONOMIC ADJUSTMENT IN THE NEW EUROPE : THE PROSPECTS FOR SCOTLAND[1]

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INTRODUCTION

This article looks at the two key forces in the spatial development of the EC in the run-up to 1992. On the one hand the pressure for greater integration and unification around a liberal market economy and on the other the fragmentation and defence of 'peripheral' regional interests against centralisation. In this context peripheral is as much a socio-economic concept as a geographical one. These reflections are based on recent research into the configuration of regional interests, institutions and policy networks in Scotland which need to be placed in a wider context of a single European marketplace.

The two European Community developments of the free market and social charter (1992) encapsulate this powerful and potentially contradictory force. The former is based on liberalisation, including the removal of barriers and constraints on the movement of goods, services and labour within the Community. The latter is based on the continental European notion of social partnership involving the organised interests of European and nation-state institutions, labour and capital. The balance between the economic and social forces embodied in these two concepts has yet to be worked out in terms of which development will dominate in the creation of a more united Europe.

EUROPEANISATION AND THE UK

From a UK perspective the EC social charter has revealed important ideological and political conflicts. For the Conservative Government committed to liberal market solutions, it is seen as bureaucratic interference. For example, the Government has made clear its opposition to any plans for legislation to enshrine workers' participation at company level, preferring instead an evolutionary approach which places more emphasis on market-based mechanisms such as share ownership or profit sharing than statutory rights to sit on boards [D.E., 1989]. For the trades unions and the wider labour movement the Charter represents an opportunity to recover lost ground and gain new advantages in terms of social protection and rights.

EUROPEANISATION AND SCOTLAND

Sharp and Holmes [1990] have suggested that national industrial policies, and in particular corporatist models of policy-making and implementation, have declined. By corporatism we mean the model of relationship between representative associations of business (the CBI, trades associations), organised labour (TUC and its affiliated unions) and the State (Government through key economic departments and para-State agencies) based on dialogue at national and sectoral levels which aimed to establish areas of agreement about economic and industrial policy. NEDO and the offshoot EDCs represent in the UK context the peak of this model, although as Grant [1985] has pointed out, its significance in terms of actually implementing agreed policy or programmes which affected behaviour at the level of the individual enterprise was not great except in certain tightly organised and regulated sectors, eg parts of agriculture. More characteristic of the UK industrial policy has been *ad hoc* bargains in defence of crisis industries, or more recently to promote newly emerging sectors such as telecommunications and electronics [Cawson, 1986]. As we suggest later we found examples of this more diluted form of '***neo-corporatism***' in Scotland.

However, as Sharp and Holmes argue, in place of national or regional corporatist arrangements we see the emergence of the Europeanisation of policy based on the promotion of competitiveness by European firms. A significant part of this promotion has been the encouragement of collaborative programmes of research, development and training, for example in electronics, which, when set in the context of industry restructuring, have led to the increasing domination of the industry by fewer multinational corporations. If this is the case, where does it leave the peripheral regions of Europe?

Below the nation-state level, and specifically from a Scottish perspective, the EC represents a threat and potential opportunity, but peripherality suggests that positive intervention is needed for economic actors to

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gain benefits and minimise costs. Recent reports suggest that without some positive political intervention peripheral regions face major job losses [*Observer*, 14/1/90]. Arrangements based around a combination of Scottish identity, interests and institutions have provided possibilities to modify the market pluralism of the centre and develop more collectivist solutions to issues of industrial development [Moore and Booth, 1989]. This has generated policy communities and specific modes of public-private interaction. Essential to these arrangements is the capacity to translate consensus between actors into policy outputs. Regional identity and the representation of key interests need institutional arrangements with adequate autonomy - resources and powers - to produce sufficiently differentiated outputs from other spatial areas which comprise the UK nation-state.

EMPIRICAL EVIDENCE FROM SCOTLAND

Introduction

We studied the policy area of industrial development and found evidence of a spatial dimension to sectorally based arrangements which could not be defined as liberal market but which fell short of corporatism as defined by Schmitter [1979] because they did not embrace the three essential criteria of corporatist relationships, namely : centralised representation of interests; high degrees of hierarchical control of group members; and responsibility for policy outputs. As we have suggested earlier, these criteria have never been strong in the UK context despite the rhetoric of the Thatcher years against '*corporatist*' regulation. As Grant [1985] and others have suggested centralised (UK) level corporatism has been undermined by weak peak associations (the CBI and TUC simply lack sufficient authority over their members to enforce agreements) and the basic lack of consensus over industrial policy during significant periods of the post-war period (although this can be overemphasised). On the other hand, what we uncovered was not pluralism, where organised interests remain essentially outside the policy-making institutions and function as pressure groups lobbying decision-makers but retaining autonomy by avoiding co-authorship of policy. When fused with a liberal market order this model of pluralistic relationships leaves the State primarily in a role of providing a legal and fiscal framework with no positive intervention in terms of industrial policy.

We uncovered in sectors of the Scottish economy an arena of '*negotiated order*' which lies between the pluralist and corporatist models. This order embraced a range of institutional models, but primarily involved formalised bipartite agreements between State actors and business interests (represented by trade associations and individual enterprises). Notably absent from these arrangements were the representatives of organised labour, reflecting the ideological preferences of the UK government and the relative weakness of the trades union movement.

We would reject pluralist labels where intermediation takes interest roles (whether defined collectively or individually, e.g. the firm) into a relationship with the State and public policy process and transforms enterprises into co-authors and agents of policy outputs. A policy exchange occurs based on agreement where each party cedes certain rights in order to obtain benefits. There is a merging of public policy goals and private interest. These agreements may be designed to resolve conflicts, assist economic adjustment or promote certain desirable developments e.g. market development.

What is the scope of this model of industrial policy-making in Scotland? Scotland is characterised by variable autonomy. Economically it is subject to general trends of macro economic policy, which in the 1980s primarily meant reduced public sector intervention and expenditure especially on industrial policy and an emphasis on tax cuts and market operations. This relates to political control which in the unitary UK State has been seen as increasingly centralised [Crouch and Marquand, 1989].

We can qualify this broad position of Scottish dependence, however. Firstly, economically whilst macro policy is subject to central direction, this pattern may be more variable at the meso level of the regional economy in that different economic or industrial sectors exhibit different degrees of indigenous ownership, control and autonomy. Secondly, at the political level Scotland possesses distinctive characteristics in a number of key areas, for example, institutionally it has a separate administrative sub-system in the form of the Scottish Office. Whilst the Scottish Office is essentially an outpost of the UK central State it is rather more than simply an administrative agency. It can channel pressure from Scotland to the centre and retains a degree of policy-making and implementative capacity in several policy areas [Keating and Midwinter, 1983]. This significantly includes industrial policy.

This area of autonomy is supported by wider political forces - the clearly distinctive electoral composition and pattern of party representation reinforced repeatedly at the elections of the 1980s - and the social forces of nationalism, regional/national identity and its distinctive social institutions (legal system, religion and culture).

All this should not be overplayed. We have argued that those who define Scotland as a political system [Kellas, 1984] may exaggerate this autonomy. On the other hand, those who define Scotland simply as an administrative sub-system of the UK State [Rose, 1982] underplay its relative and variable autonomy. Much more satisfactory in analytical terms is a differentiated model offered by Keating and Midwinter [1983] which suggests variable autonomy in different policy areas depending on particular contingent factors. This kind of analysis can be applied to the Scottish economy in terms of analysing the scope for a differentiated policy output distinctive from the UK State.

The International Sector and Dependency Relationships

Broadly we can distinguish two major types of industrial sector in Scotland. Firstly, the *international sector* which grew in several areas in the post-war period and forms the core of major industries such as oil and petrochemicals and electronics. This sector is dominated by multinationals which have moved into Scotland. The infamous 'branch plant' syndrome has been noted [e.g. Hood and Young, 1982] although its impact in terms of performance is not so clear. Young [1984] observed the better performance of externally owned firms in comparison to Scottish firms, although in more recent times attention has been caught more by closures [Haworth, 1987].

The electronics industry perhaps best highlights this problem. It is an industry which essentially has expanded dramatically on the basis of attracting inward investment through offering incentives in the face of competition from other parts of the UK and Europe. This investment is seen as a major input into the Scottish economy by official actors such as the IDS and SDA. At the same time, observers have noted that it distorts the development of the sector [Henderson, 1987]. Whilst Scotland may not be a 'typical' underdeveloped assembly plant location, neither has it developed a strong and independent indigenous base. Perhaps even more problematic for bodies such as the SDA is that on its own figures [SDA, 1986] the strategy has not had significant success in generating substantial contracting and supply linkages.

Such a sector we would characterise as displaying a high dependency in terms of its economic structure (high degree of external ownership and control - the latter being especially important in terms of decisions about sourcing) and in terms of industrial policy with the institutional actors basing their strategies primarily on attracting such investment. The opportunities for influencing key players in the sector are limited. The best the SDA can hope for is to gear indigenous companies towards competing for contracts or finding market niches independent of the externally owned part of the sector.

Indigenous Sectors and the Negotiated Order

The second type of industrial sector is *indigenously owned and controlled.* This has been the sector which has been in major decline in general terms for most of the post-war period, especially in its manufacturing form. However, in certain sectors the Scottish presence is still strong, e.g. parts of engineering, clothing, agriculture and food and within some sections of finance. In these areas it has been possible to develop different forms of industrial policy which display in varying degrees the possibility for the Scottish Office and its satellite bodies to steer a somewhat different course to that of the UK State centrally.

Relationships between the Scottish industrial policy institutions and the Scottish private sector will vary depending on the structural characteristics of the specific sector (is it concentrated or fragmented?), the degree of common interests and identity amongst the actors (are there areas of collective agreement which could provide the basis for collective action or is the sector divided?) and the institutional infrastructure (are there collective associative bodies which can represent and negotiate for the sector and deliver collective agreements; are there key firms that could be identified as sector leaders?).

In our empirical study we did identify sectors where forms of positive industrial policy and collective action were evident. For example in the Scottish financial sector the historical identity of a financial community which was increasingly looking to international markets for expansion provided opportunities for new forms of collective action in the form of Scottish Financial Enterprise. This was essentially a marketing and promotional organisation sponsored by the industry and the SDA which can be viewed partly as a response to deregulation and the increasing internationalisation of the financial market in all sectors which threatened the operational strength of what in global terms were very small Scottish players. Through collective action, however, it was seen as possible to promote the identity of the Scottish industry and to identify market opportunities.

Whilst this area remained largely a fairly weak policy-making or implementative arena partly given the interests of Scottish financial capital in using the indigenous identity as a marketing strategy, there was recognition that the economic interests of most institutions could be threatened through international forces. As Draper et al [1985] observe there is a potential or real contradiction between an indigenous identity and an international orientation. Collective action was therefore fairly limited.

In other sectors an indigenous identity and economic interests did not contradict each other, at least in the short to medium term, but provided an opportunity to create and sustain collective public-private sector interaction.

The features of such relationships were first, *bilateral negotiation* between the State (SDA) and industry (business associations, firms). Secondly, *market orientation*. These relationships were not products of industrial planning but of market weakness or failures. Thirdly, the strategy to overcome these weaknesses or failures did not rely on the State playing a minimalist role but on *an active industrial policy* which involved collective action in the market. Fourthly, the relationships were firmly located at the meso or micro levels of the economy (specific sectors or firms) and involved a *programmatic orientation* designed to fulfil specific objectives. Thus, the relationship could be fairly *ad hoc* in terms of institutional permanence.

This negotiated agreement can operate at the level of associative order or the enterprise. In the forestry sector in the early 1980s Henderson [1984] identified the development of collective strategic action based around *ad hoc* institutional arrangements which brought together public and private interests to respond to market crisis. We found strikingly similar innovation in the woollen industry.

This sector is of significance to the Scottish economy and in terms of indigenous involvement represents a high degree of Scottish ownership and control. In the woollen sector the SDA acted as a catalyst for bringing together the fragmented industry associations into a new umbrella body, Scottish Woollen Industries (SWI). The strategic objective was that through collective action the Scottish owned and controlled segment of the industry would be in a much better position to enhance its international competitiveness than a competitive market model would allow. SWI represented some fifty firms (92% of the sector in terms of enterprises although 65% in terms of employment because the two largest firms which were subsidiaries of multinationals did not participate). SWI raised funds for collective promotion from the industry which were matched by the SDA. In total the SDA committed £½ million of public money over five years to SWI which was responsible for running collective training, research and development, marketing and promotion activities. SWI provided a means of fusing industry representation with a public policy function which brought together private and public interests. To label such an instrument as part of a liberal market order is to stretch the term to embrace a fairly positive industrial policy role for the State. To call it corporatist planning of industry would be equally mistaken. What we see here can best be characterised as part of a negotiated order of public/private partnership.

There are certain conditions which seem to be important if this type of arrangement is to occur. It is interesting to contrast the SWI with attempts during the 1980s to create a similar institutional form in the Scottish raspberry sector. Scotland accounts for two-thirds of European raspberry production and there are some 600 growers. The indigenous industry was so fragmented that when the SDA sought to promote a statutory development body for the industry it failed to secure the approval of the growers. There was apparently at this time no real sense of collective identity or set of interests.

This does not mean that where an industry lacks sectoral cohesion there is no possibility of concerted relationships emerging. They are more likely, however, to occur at the micro level with public intervention at the level of the individual enterprise. This need not be a reactive relationship divorced from any sense of sectoral strategy.

The engineering industry is a good example of this. It remains a fairly significant sector in terms of indigenous presence but suffers from basic problems. These were identified by the SDA in an industry survey in the mid 1980s. They included a lack of competitiveness, failure to innovate and a fragmented marketing strategy. The sector remains important, employing directly 40,000 and with a turnover of nearly #1.5 billion per annum, but the SDA has had only limited success in getting enterprises to work with it to improve the innovative capacity and marketing strategies.

What was interesting in terms of industrial policy and developing concerted public/private sector relationships was that on the basis of its survey the Agency identified firms that had survived rationalisation of the sector and invited them to contribute to a sector strategy. After analysis and discussions, the SDA introduced the Business Opportunities Programme (BOP). This programme involved working with individual companies using techniques developed by the Agency to assess commercial opportunities against company resources. The BOP was agreed between the Agency and the firm setting out targets in terms of new product developments, marketing and research. These targets were subject to quarterly review. In return for managerial commitment to the strategy, the SDA made available its resources to help implement any agreed programme - financial support, advisory services, technology transfer.

The reason why the negotiated order took this form rather than the associational form of the woollen sector was partly because of the absence of appropriate collective institutional mechanisms. Whilst the industry might be seen as quite rich in terms of representative associations - the Engineering Council, Engineering Employers Federation, Engineering Industries Association - these tended to operate at the UK level, were highly differentiated in terms of membership, and in key sub-sectors largely externally owned and controlled. The Scottish Engineers Employers Association essentially regarded the development of strategy to be a company matter.

Summary

Scotland does not have an autonomous economy either in terms of structure of ownership/control or in terms of public policy instruments. But it has had through the 1980s a distinctive industrial identity, interests and institutions which can be said to represent a series of policy communities. The SDA has since the mid 1970s been a central actor in these communities and in the fashioning of a Scottish industrial policy. The relationships it has developed with Scottish based (as distinct from Scottish owned and controlled) industry must be analysed at a sector level if one is to develop any sense of understanding of industrial policy in Scotland over the last decade.

In crude terms, we have suggested that we can divide the Scottish economy (excluding the rapidly diminishing State-owned sector) into a dependency model and a negotiated order model in analysing industrial policy and public/private relationships. The dependency model is characterised by an internationalised market structure where the locus of competition is global. It is dominated by externally owned and controlled capital. Public policy has reinforced this dependency model (some would argue realistically and beneficially for Scotland) by basing strategy on attracting and servicing its identified requirements. Domestic industry, and indeed Scotland in this context, becomes a sub-contracted economy. Electronics and oil-related industries are classic cases of this dependency model.

The negotiated order of the Scottish economy and industrial policy is more likely to occur in markets with relatively high degrees of indigenous ownership and control. The focus for such companies need not be the local or even UK economy. Indeed, the incentive for developing a negotiated order in terms of industrial policy and public/private partnerships is often the interest of Scottish companies in breaking into overseas markets. Without such an order many such companies would lack the capacity and competitive position in the world economy to make much impact. Collective action is thus a means to individual benefit.

Relationships thus tend to develop into concerted action operating at a sectoral level embracing an SDA sector strategy, collective industry representation and public/private partnership in the formulation and implementation of programmes. Alternatively these arrangements operate at a sub-sector level but within the framework of a strategic conception of development for a sector, e.g. engineering or parts of the oil supplies industry.

What has been significant for Scotland over the past decade has been the existence of institutional arrangements which have provided some room for manoeuvre for sectors of the Scottish economy largely absent in England. This explains the great interest south of the border in regional development agencies which now currently inform the Labour Party's industrial and regional strategy. The recommendations of left wing think tanks trying to mount a counter offensive to the liberal market view of industrial development also reinforce the argument [Brunskill, 1990].

It is therefore ironic that at the moment when this interest is intensifying in sections of the English polity the future of the Scottish model should appear so much in doubt.

FUTURE IMPACT

The kind of arrangements outlined above are not unique. They exist in other parts of Europe. Perhaps the most often quoted example of the fusion of a strong regional political and institutional infrastructure and local economic action of a collectivist kind is the so-called 'Third Italy' based around Emilia-Romagna. Best [1990] highlights the ways in which collective private action underpinned by the local state is mobilised to overcome the limitations in the marketplace of any one individual enterprise. For example, in the textile sector the regional government's economic development agency has helped establish public/private funded and managed information centres which support marketing and technological innovation.

How will the European dimension affect Scottish arrangements? There is an unclear scenario for future EC institutional arrangements and the likely degree of supranational integration - made more confusing by developments in Eastern Europe. There have been signs of regionalism which may push for greater differentiation of territorial governance to reflect divergent identities and interests leading to new institutional arrangements. These arrangements may become more significant if the nation-state becomes less important either *de jure*, e.g. ceding authority to EC institutions, or *de facto* as economic, social and political movements run in contradictory directions - economic concentration through multinationals v demands for greater regional self-identity. As Kellas [1990] observes, the paradox of supranationalism as represented by European integration and sub-state nationalism and regionalism is explained by the diminishing role of the nation-state. This is to some extent encouraged by EC regional policy which increasingly seeks to mobilise regional policy networks rather than national systems. The paradox is that unlike the regions of Spain, Scotland is not recognised in EC terms because it has no constitutional basis despite a clearly distinctive practice.

The position of peripheral regions such as Scotland is unclear. There is a twin threat to any distinctive negotiated order. Firstly, from a central government continually pushing for market solutions and mobilising the power of the central state to achieve this end. The decision to replace the Scottish Development Agency, which has been at the centre of a distinctive regional industrial policy in Scotland for the last 15 years, by a private sector dominated Scottish Enterprise which will distribute funds to a network of local enterprise companies could undermine any sense of regional, i.e. Scottish, coherence in industrial development. The emphasis in the new structure is on privatisation, or at least private sector leadership of publicly funded programmes. The role of local government and the regional institutions of negotiated bargaining and selective public intervention are clearly under threat [Moore, 1989]. The most serious implication for the new model is the potential weakening of the strategic integrative vision represented by the SDA [Hood, 1991].

Secondly, the EC dimension. If 1992 crystallises around a liberal competitive market model the future for peripheral regions looks bleak, especially if the institutional defences which previously existed are progressively dismantled. At the same time, however, the Single European Market is concerned with balanced growth which can be interpreted to mean assistance to lagging regions in the form of legitimised arrangements which allow for public intervention in economic sectors to ease transition and to provide for positive adjustment strategies. Institutionalised insulation which is based on the premise of working towards economic adjustment could help minimise peripheral dislocation. The example of the SDA in Scotland, regional development agencies in Wales, Northern Ireland, Southern Ireland, Italy and West Germany illustrate the importance of such distinctive institutionalised partnerships. Whether these arrangements emerge and are sustained seems to depend on three variables which could be measured. Firstly, the level of *territorial identity* at the regional level. This could be indicated by the strength of identity as revealed by mass survey techniques. The degree of consensus over certain values could also be measured through survey and interviews. Finally, at this level the existence of relatively autonomous socio-cultural institutions is important.

Secondly, the *institutional variable.* This includes the strength of political and institutional networks and the degree of delegated responsibility for policy-making and resource allocation. This can be measured by political institutional analysis, for example through Rhodes' resource dependency model [Rhodes, 1988], analysis of formal constitutional provisions and analysis of budgetary data.

The third variable is the *organisation and representation of regional interests.* In an interesting study of business interests Coleman and Jacek [1989] have examined the significance of territorial representation and policy-making in several capitalist economies and found that in certain cases the representation of business might subdue territorial differentiation, but in others it could reinforce and identify strongly with regionalism. Certainly whilst there may be strong centralising tendencies in the capitalist economy this does not mean that territorial interests no longer matter.

In the light of EC developments the case for a regionalised negotiated order - whether formalised as corporatist or alternative models of public/private concertation - is powerful as a source of positive adjustment to market change and restructuring. Such regionalisation provides a counterbalance to the globalisation and Europeanisation identified by Sharp and Holmes [1990]. Unless the regional dimension is sufficiently recognised by both EC <u>and</u> national policy-makers the push towards 1992 is likely to create significant territories of disadvantage and disaffection which is likely to reinforce demands for greater regional autonomy, as has occurred in Spain.

Not all segments of capital based in Scotland will be interested in this argument. Multinational corporations and externally owned capital have interests which lie beyond Scotland. Multinational corporate capital has an identity with, and interest in, the Scottish economy as a site of production or market but this interest is clearly subordinate to global corporate strategy. The leverage of public bodies over these corporations is limited. Other forms of capital may also increasingly identify their interests as lying beyond Scotland, but the crucial difference is that their corporate strategies are formulated from within Scotland. This gives Scotland several advantages in terms of protection from rationalisation and as a site of significant employment. The capacity of many Scottish firms to break into these wider markets may depend on forms of State support. Capital in Scotland may not wear a kilt, but some firms need the support of a tartan industrial policy.

An appeal to Scottish capital in supporting a distinctive institutional negotiated order for industrial policy does not have to be made in terms of an 'idealistic' and 'naive' appeal to national identity. Such identity may have an influence, but it is subordinate to long term economic self interest. But as the example of the Third Italy illustrates, strong regional institutions can support economic interests in surviving and prospering in an international market place. In a Europe of the regions it will be those localities which have developed an institutional infrastructure, collective interest and sense of identity which are likely to perform better economically, or at least protect themselves from the negative impacts of market adjustment.

Scotland had this potential even during much of the 1980s with a hostile central government. But whether this potential exists for the 1990s, when the challenge comes from beyond Whitehall, is less clear. It is important that the interests involved recognise the threat and prosecute their interests at the EC level if they wish to maintain the advantages they have had in the past. The prospects of this occurring are, however, limited unless Scottish interests can develop the same kinds of links with Brussels as they have developed with Edinburgh and thus begin to compete effectively with continental European associational interests.

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