Interdisziplinäres Institut für Raumordnung
Stadt- und Regionalentwicklung
Wirtschaftsuniversität Wien

Vorstand: o.Univ.Prof. Dr. Walter B. Stöhr
A-1090 Wien, Augasse 2-6, Tel. (0222) 34-05-25

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Walter B. STÖHR

# ON THE THEORY AND PRACTICE OF LOCAL DEVELOPMENT IN EUROPE

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Chapter 2.

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by

W.B.Stöhr

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## 1) Local development in an extended time perspective

Ever since people became sedentary they organized themselves in local communities, the well-being of which depended primarily on their own initiative, creativity, their material resources, and their ability to organise themselves for the use of these resources. Local communities have intermittently attempted to expand the territorial range from which they could organize resources, in order to increase their well being. According to Rokkan (1973) this took place along three dimensions of differentiation and retrenchment: economic, cultural and military. There has been an oscillating but gradually increasing trend of spatial interaction and dominance up to the emergence of our present world economy (Laszlo, 1974, Stöhr, 1981, Rokkan et al. 1987). Important stages in this process of spatial expansion of dominance and interaction, which were frequently followed by subsequent periods of contraction (Stöhr, 1981, Rokkan et al.1987), were the formation of nation states particularly since the eighteenth century, followed by the expansion into colonial empires and, after World War II, the integration of multinational markets such as those of the European Community and of COMECON. Intermittent contractions of these radii had occurred

temporarily, e.g. during the physiocratic period (second half of the eighteenth century), during the second Kondratieff downswing (about 1873-95), as well as during the third Kondratieff downswing (about 1926 - World War II, cf. Stöhr, 1981, pp. 50 ff.). Since World War II,after the dissolution of most colonial empires, a continuous internationalisation of local economies has taken place which has made them rely increasingly on resource allocations from a central government or from multilocational firms. Local communities increasingly felt relegated to the passive role of 'history takers' and a feeling of helplessness. Traditional massproduction oriented "Taylorist" industrialisation has not only made an increasing number of individuals depend on work being supplied to them - rather than creating it themselves - but also has made entire local communities depend for their employment on decision-making centres elsewhere, thus depriving them of control of the economic aspects of their life. Many local communities have become "dependent on money coming from outside and going straight out again, not circulating locally and thereby supporting local work" (Robertson 1987,p.59).

Local levels of development can essentially be increased by the spatial extension of local dominance, by the attraction of outside resources (e.g.from central government or multilocational firms), or by local mobilization and a better organization of indigenous local resources and technological upgrading. The latter has been widely neglected until very recently. Local and regional development policies since World War II were primarily mobility oriented and - to use Hirschman's (1970) terms - guided mainly by 'exit' strategies (of capital, people, environmental

damage, etc.) to other territories, rather than on the promotion of local actors' 'voice' strategies within their own territorial system.

Already since the last century, the industrial revolution and particularly the introduction of Taylorist mass production, has promoted strategic alliances between the central State and large-scale industry. Industry relied on the State to expand and secure its market, while the State in many capitalist countries was helped by industry in the maintenance of its power. Along with it went the reinforcement of hierarchical, vertical organisational and decision-making structures both in the State and in the industrial corporate domains.

These vertical organizational and decision-making structures could be maintained and proved efficient during periods of economic growth and market expansion in which scale economies of industrial mass production played an overriding role. The Central State tried to alleviate the most extreme social (poverty) and spatial (lack of urban infrastructure) repercussions which the industrialization process and particularly its cyclical recession periods caused.

These vertical organizational and decision-making structures however proved less and less capable of offering the opportunities needed and of solving the problems caused by the accelerated economic restructuring process since the early 1970's. These structures particularly could not create the conditions needed for a local entrepreneurial climate, nor

directly solve local problems of unemployment and lack of innovation.

Much more flexible, decentralized and horizontal structures were required for dealing with these problems. Technologically this was supported by the opportunities offered by micro-electronics, such as flexible automation, and by the increasing diversification of demand. This caused a resurgence of interest in small and medium sized enterprises related to local milieux and of local and regional initiatives and action.

Since the early 1970s, therefore, a rapidly increasing awareness of 'indigenous' local development efforts can be observed (Stöhr 1985). This has manifested itself in 'an emphasis on indigenious business creation which replaced smokestack chasing in most areas' (Naisbitt 1985,p.11, for the US, quoting the president of a Washington,D.C., based consulting group). But local development initiatives are emerging in large numbers not only in the US where they had precursors in the Community Development Corporations since the 1960's (Ford Foundation, 1973), but also in Europe, Latin America and other continents (cf. Commission of the European Communities, 1985, 1986; Bassand et al.1986; Marshall 1987, p. 237; Sutton 1987; Galtung et al. 1980; Max-Neef 1982, Hirschman 1984, IFDA 1987, Mayer 1988, as well as the Select Bibliography at the end of this book.)

Some authors feel that present local development strategies can benefit particularly from the experiences of the above mentioned last two contraction/crisis periods of the 1870s and 1930s (2nd

and 3-rd Kondratieff downswings) when a great number of local self-help schemes was started (Novy K., 1986).This proposition, however, requires a thorough scrutiny as the two earlier crises were considered mainly of a general cyclical nature of demand constraint. These constraints were attempted to be overcome during the first crisis of the 1870's by aggressive colonial world market expansion, during the second one of the 1930's with Keynesian policy instruments of demand management. In contrast the present 'crisis' is characterized primarily by an international and spatial restructuring process (Muegge and Stöhr, 1987).Whereas general cyclical depressions were mainly dealt with by central government quantitative expansionary measures ( external market expansion, deficit spending, public works projects, etc.) the present international restructuring crisis requires mainly decentralized qualitative measures geared towards the increase in innovative capacity and flexibility (Stöhr, 1986).

Comparable to these prior periods, however, is the renewed emergence of a broad discussion on unorthodox new policy instruments including local employment and development initiatives ( now considered 'new' only in a short term perspective following the previous period of central Keynesian policies). Their apparent 'novelty' however was also caused by their small scale (though great in number) which gave them little attractiveness for the mass media (Stöhr, 1985) and little 'dignity' for science (Novy K.,1986, p. 365). Marshall (1987) suggests that such locally based movements will emerge at "turning points" in social, economic and political development and that the present

wave of local initiatives is by no means 'new', but basically represents a "reconstruction of the historic tradition of municipal enterprise and civic works" (p. 239). What may be new in many current local initiatives however is their "grassroots" character. In comparison, many of the municipal enterprise and civic works projects of earlier periods often were dominated by small and powerful local minorities. The intervening centralization period in some cases may have had the side-effect of breaking up these local "fiefdoms". (J.Bryden, personal communication).

## 2) Local Development and the Present International Economic Restructuring Process

Different from the above mentioned last two cyclical crises in market economics during which high unemployment was mainly caused by aggregate disequilibria between investment and effective demand, the present phase of unemployment is primarily accompanied by a spatial restructuring process of economic activities on a world-wide scale due particularly to differences in the rate of innovation between sectors and regions. Presently unemployment and other crisis symptoms are therefore much more concentrated on certain areas ( particularly ' old' industrial areas); their spatial incidence is also changing much more rapidly than before. In the centrally planned COMECON countries this latent restructuring need has been hidden by central resource allocation which frequently preserved pockets of low productivity and labour surplus on the one hand, and areas of overemployment on the other. Ongoing reforms in various COMECON countries are delegating more responsibilities to individual

enterprises and will speed up this restructuring process and some of its concomitant problems, such as local unemployment, also there.

Important characteristics of the present international restructuring process for local development are ( Stöhr 1985,Muegge and Stöhr, 1987):

- Recently emerged new production and communications technologies permit the spatial segmentation of discrete production and distribution processes which before had been spatially unified; individual localities therefore are not anymore the seat of entire enterprises but only of segments thereof;

- Recent expansion of multi-site enterprises and new forms of policentric entrepreneurial organisation have favoured the world-wide distribution of specific entrepreneurial functions according to their specific locational advantages; many locations have therefore been stripped of formerly held entrepreneurial functions;

- Increasing integration of international finance and capital markets has promoted high mobility of capital and a disengagement between capital and location;

- The mobilisation of a potential reservoir of industrial workers in practically all not yet industrialized parts of the world has led to rapid shifts, particularly of standardized 'old' products, to low-wage areas, frequently in the third world;

- A 'war' between regions and localities for production and distribution activities (particularly with high-technology content) has set in, in which transnational companies bring about a bidding of localities against each other;

- Reduced aggregate growth-rates have led to the fact that local development can be derived less and less from expanding markets but rather from gaining a greater share in existing markets by higher productivity, the creation of new products, and the application of new technologies. Localities and regions are increasingly trying to capture a maximum of new technologies and new products which will permit them to stay at the "young" edge of the product cycle;

- The requirement of innovation and flexibility deriving from the above conditions have made traditional regional and local development policies widely ineffective and have led to new approaches for the stimulation of development with increasing emphasis at the local level.

The above characteristics are mainly related to the increased world-wide mobility of capital which requires new strategies for local and regional development. In many countries this is already being taken into account by changing state policies.

## 3) Alternative local development policy approaches

Basically one can distinguish between three groups of local development policy approaches, which however are not necessarily mutually exclusive:

a) A central allocation localized development policy approach, "from above",

b) a private enterprise approach to local development, based mainly on the operation of the market mechanisms, and

c) a broad locally/regionally initiated local development process ("from below").

a) The central allocation localized development policy approach has been practised most since World War II. It basically followed a central redistributive strategy by the spatial allocation of public infrastructure investment and a spatial differentiation of incentives for private activities (primarily in market-oriented economies, cf. Vanhove and Klaassen, 1987), or via the spatial allocation of nationalised activities (in central planning oriented economies). In another context I have called this "regional development from above" (Stöhr and Taylor, 1981) which was mainly redistributive and equity oriented. While this strategy had been reasonably successful during the period of relatively high aggregate growth-rates (up to the early 1970s) when it seemed still feasible to influence the spatial distribution of this growth, it widely lost its effectiveness in the 1980s when aggregate growth-rates declined and regional restructuring and innovation became the main problem of local and regional development (Stöhr, 1985, Wadley, 1986).

In West European market economies these new requirements of local/regional development were already evident in the mid-1970's; in some of the East European centrally planned COMECON countries, this problem was realised only around the mid-1980's, partly because of their having been sheltered from the world market longer.

The key reason why such central redistributive policies are ineffective is that they cannot influence the entrepreneurial climate and innovative capacity of structurally weak regional communities (Premus, 1986, Dyckman and Swyngedouw, 1987). Similar conclusions were drawn for traditional labour market and employment policies (Commission of the European Communities 1983; Maier and Wollmann, 1986). In more concrete terms the reasons why predominant central allocation policies have not been able to produce satisfactory results for local development are:

- Central allocation policies have traditionally been organized along sectoral lines which in most cases produced segmented results at the local level. While the coordination of sectoral policies at the local/regional level has been the traditional task of centrally steered regional and local development policy, it frequently represented only the extended arm of central power, at best able to provide technical coordination of (mainly central) projects, but not able to mobilize and coordinate local resources. Self-sustained local/regional development requires the predominance of local actors, of local democratic decision-making, of local control of resources and innovation, and of local benefits (Stöhr, 1981). Recently central agencies at

the national and even international level have tried to implement directly integrated local and regional development programmes such as the 'Integrated Mediterranean Programmes' of the European Community, but convincing results are not yet available.

- While central allocation policies during growth periods were relatively successful in cushioning some of the negative social and spatial side-effects of growth (by welfare, housing and urban / regional policies), in the recent period of economic restructuring these have become widely ineffective. One reason is that they have stifled rather than motivated local and individual initiative, innovation and entrepreneurship.

- Central allocation policies have not been able to effectively overcome the functional economic and the labour market segmentation which the process of international economic restructuring characterized above has produced at local and regional levels (Kamann, 1986, Storper and Scott, 1986).

- Central allocation policies can rarely effectively induce local innovation in places where it would not happen anyway. They can only work through local innovative structures or try to promote these.

- While central allocation policies are effective in influencing aggregate supply and demand, it appears that the creation of new local structures of supply and demand requires additional policies at the local level (Maier and Wollmann, 1986, pp. 27 and 295 ff.).

- Structurally weak regions usually are characterised by standardised technological and organizational structures. Central allocation policies by their nature are standardised and therefore ill-suited to solve their problems.

-Central allocation policies in most market and even in some centrally planned economies also have not been able to effectively reduce social disparities within localities and regions on a sustained basis: one of the reasons again was that they were unable to change local structural conditions.

For several decades it has been maintained that in the present internationalized economy development efforts "from below" are hardly effective, but recent local initiatives are showing that economic initiatives and popular involvement at a local and regional scale are an essential ingredient of any national programme for economic regeneration which must accomodate and respond to a diversity of local problems and uneven opportunities for resolving them. This does not mean however that they do not need the state to facilitate them (Friedmann and Weaver 1979, Marshall 1987).

It is frequently maintained that strong central government policies will subdue local intiatives, a hypothesis which is applied both to local and regional development policy (Premus, 1986, Wadley, 1986) as well as to employment policy (Maier und Wollmann, 1986).It is asserted that a withdrawal of central power from these fields will give more scope to initiatives at the local and regional levels again, although the weakest areas may have the least potential for it so that disparities might increase further still. State support for local initiatives particularly in the weaker areas will therefore still be needed.

b) A private-enterprise approach to local development, based mainly on the operation of the market mechanism is frequently proposed in view of the lack of effectivness of established local and regional development policies which were mainly of the central redistributive type. Politically critique against traditional local and regional policy has been levied mainly with two streams of arguments (Wadley, 1986,p.71): one, that state local and regional policy instruments were ineffective and inefficient and that action should be left to private enterprise via deregulation and the market mechanism, propounded mainly by the (extreme) Right; the second stream of arguments originated mainly from the (extreme) Left and maintained that the regional problem was only part of the existing (capitalist) socio-economic system and that its abolition was the precondition for a solution of regional problems.

Meanwhile it has shown that neither the free enterprise / deregulation model (experimented with mainly in the US and Britain) offered effective solutions for regional problems, nor could they be solved by centrally guided socialist systems practised under some Western socialist Governments but mainly in COMECON countries (Blazyka, 1983). Both these models are not able to reduce spatial disparities in innovative and adaptive capacity and overcome the helplessness of regional communities in the face of the challenges posed by the process of international economic restructuring. They found themselves between the Right's assertion that "There Is No Alternative" and the Left accusing "the perverse and remorseless machinery of global capital accumulation" for it (Marshall 1987, p.XIV).

The private enterprise approach is usually based on a "micro" and a "macro"level line of arguments: The "micro"-level argument asserts that the private entrepreneur is best able to identify new market opportunities, choose relevant new products and technological innovation, and invest resources accordingly. The advantages of this unique ability of the private entrepreneur are stressed even more in view of the rapid changes in the international division of labour which have occurred recently. The "macro"-level argument is that as soon as the mobility of commodities and services (free trade) and of production factors (capital, labour and technical knowledge) is increased sufficiently, spatial difference in prices and levels of development will tend to equalize in all localities and spatial disparities will disappear. This is essentially the argument which neo-classical theory has maintained as mentioned in Chapter 1.

We shall not discuss here the wide literature defending or refuting both these micro- and macro-hypotheses. A great number of studies, however, have shown that both these hypotheses neglect the real processes operating between these micro- and macro-levels, namely at the local and regional "meso"-level:

As regards the "micro"-level argument, it has been shown that the ability of the individual entrepreneur to define new markets, introduce innovations and have access to (particularly risk) capital depends to a great extent on the respective support structures available in their vicinity, i.e. on the "meso"-level of their local or regional milieu. It has also been shown that

technological innovation must be organized on a territorial basis (Nijkamp & Stöhr 1988, Perrin 1988) and requires a careful coordination among local training, community development, education, research, tax and regulatory policies at the local and regional level (Premus 1986). In an earlier paper I have called this a "regional innovation complex" (Stöhr 1986/a). This requires an effective interaction and support network of actors at the local/regional level which in various aspects and to varying degrees is cooperating with actors and institutions outside, at the national or international level (see also the diagramm of actors in the Annex, p. 2 ). These local interaction and support networks are particularly important for innovation in small and medium sized enterprises which increasingly are considered the key-elements for sustained local development and innovation (OECD 1982, Rothwell & Zegveld 1982, Wadley 1986, pp.76ff.). These studies show that innovation and entrepreneurship are not autonomous micro-processes but depend considerably on the "meso"-conditions of the local and regional milieu.

As regards the "macro"-approach referred to above, these "meso"-conditions would have to be introduced in the neo-classical model as differences in external economies which explicitly distort the functioning of the market mechanism and therefore impede the levelling of disparities in development between localities and regions.

Neither the central policies of the previously described allocation-type, nor micro-action by individual entrepreneurs have proved effective in changing these "meso"- conditions. Only

broader actions by local communities can be effective in changing the respective local or regional milieu. This is the "maneuvring-space" of local communities referred to in chapter 1, concerned mainly with improving conditions for entrepreneurial and innovative activities. We shall deal with this question in more detail in the following policy option c).

In order to guide private entrepreneurial decisions more in the direction of broader local community objectives, some local authorities have made, as an inbetween solution, "contractual arrangements" with private business. In Britain, e.g. local public support for business by some local authorities (frequently in equity form for new or existing plants) is made contingent upon such contract compliance providing for firms to act in the best interests of their work-force and the wider community with respect to working conditions ( see Chapters 5 and 6) or environmental conditions. In the USA local administration is frequently contracting "linkage-arrangements" by which local authorization or support of new investment and activities is made contingent upon their orientation towards local needs (local service provision, employment,etc.) or their contribution to upgrade general local infrastrucure facilities. Similar agreements are also made in some COMECON countries between local authorities and local firms.

The problem is that such exigencies can usually be made only by local communities which already are attractive for investors whereas the others might remain relegated to an unconditional begging for outside investments, or to overcommitting local budgetary resources by tax concessions.

In many Western-, and incipiently also in some Eastern-European countries, a voluntary sector has increasingly taken charge of these problems. Its activites have focussed on community service provision and on community industry creation (particularly in Western Europe, e.g. the British Community Industry Porogrammes) as well as on cultural and know-how oriented activities (dominant in most East European voluntary sectors, see e.g. the local Friends of Town societies described in the Polish case study in Chapter 9). In general it appears that, once basic infrastructure needs are fulfilled, the sustained effect of local know-how creation in structurally weak areas is greater than that of purely material inputs.

Relations between business and local communities are twofold: the benefits which entrepreneurship creates for a local community (which the contractual arrangements try to maximise) and the milieu which a local community can offer to enterprise. The latter, particularly in less attractive local communities, will need a more broadly based locally / regionally initiated local development policy as described in the following section c) and on which many case-studies in this book focus. In centrally planned states essentially very similar mechanisms operate, only local communities there attempt to woo central authorities (and only recently also private foreign multi-locational firms) for the allocation of plants from which they subsequently try to gain financial support for local infrastructure, as mentioned before.

c) A broad <u>locally / regionally initiated</u> development policy is a third approach which has re-emerged recently, particularly for

structurally weak local economies for which none of the two earlier mentioned approaches have proved successful in coping with the problems and opportunities of world-wide industrial restructuring. Central (re-distributive) policies proved too rigid and inflexible to cope with local problems and unable to create an entrepreneurial and innovative local milieu. The private enterprise approach, though in many cases dynamic, proved too evasive to be harnessed for local communal objectives. It became increasingly apparent that local development could neither be left entirely to central government to look after nor to private enterprise alone. Local communities themselves would have to take this into their hands more than before.
Since the "crisis of the State" of the 1970's, therefore, broad local or grass-roots initiatives have multiplied rapidly, also in Europe, although only a small part of them have been systematically analyzed so far (Stöhr 1981 & 1985, Senghaas 1982, Musto and Pinkele 1985, Bassand et al.1986, Maier and Wollmann 1986; cf. also the selected Bibliography at the end of this book).

One interpretation for local initiatives is that the generation of **'regional crises'** caused by the international economic restructuring process particularly in market economies has aroused new forms of local social unrest and potential for local mobilization (Marshall 1987, pp. 13, 235 ff.). This local mobilization however at the same time - in both market and centrally planned economies - is the product of the institutional decision-making vacuum in which local communities are left between the 'anonymous' role of the State on the one hand, and on

the other hand trans-national enterprise restructuring in market economies, and centrally planned sectoral industrial restructuring in most COMECON countries. In centrally planned economies attempts towards local mobilisation are frequently also related to local environmental or quality of life problems caused by centrally planned industrial projects (see e.g. the Polish case studies in Chapter 9).

Broadly based local development initiatives tend to emerge when more than just a narrow strata of the local population are affected by crisis symptoms. In the case of plant closures this will be the case when directly affected plants represent a substantial share of local employment (particularly if its labour is well organized) or if other local sectors are indirectly affected, e.g. as suppliers or customers.

Recently an acceleration of local initiatives has been triggered by the increasing rate of international economic restructuring and its growing impact on local and regional communities, by the growing inability of the state to deal with local unemployment and restructuring problems and the (often implicit) acknowledgement of the inefficiency of traditional central local and regional development policies mentioned above. They were furthermore supported by the increasing confidence which a number of successful local development and restructuring efforts have spread, and by the realization of the need to mobilize additional local resources for the solution of these problems.To further advance this confidence and mutual learning process is a major objective of the present project.

## 4) Central support for local development initiatives

Once the sum of local problems substantially surpasses the capacity of central agencies to deal with them, they will increasingly also be prepared to support local development initiatives.

Since the latter part of the 1970s therefore an increasing number of national governments have officially supported local employment and development initiatives. Even before this, in the U.S. the Federal Government in the 1960's had supported Community Action Agencies which initially focussed on social service provision to poor urban minorities and later, under the designation of Community Development Corporations (CDC) broadened their scope also to economic development projects (Ford-Foundation 1973, Garn 1976; the author owes valuable information on CDCs in the U.S. to R.Morales, UCLA). In Europe, Britain was the first country in which local restructuring problems became extremely pressing and the Home Office already in the mid-1970s sponsored Community Development Projects (Krunshaar and Loney 1980, Marshall 1987, p.213). It was followed by most other West European countries subsequently.

More recently even international organisations became active in this field, like the OECD which initiated a 'Local Initiatives for Employment Creation, ILE' Programme in 1982, while the Commission of the European Communities in the same year introduced a similar programme, and in 1984 officially provided for measures to 'promote the endogenous development potential of the

regions' through the European Regional Development Fund (Decree of the Council of the European Community Nr. 1787/84, June 19, 1984). Some of the experiences to be drawn from OECD and EC Reviews of these initiatives are presented in Chapter 15. In 1984, furthermore, an information network for local initiatives ELISE was created in collaboration with OECD and the Commission of the European Communities, financed by the latter. The Council of Europe has also extensively dealt with this question in recent years (e.g. Council of Europe 1987), as has the International Labour Office (Mayer 1988).

These programmes to promote local employment initiatives at the national and international level are, however, a response to previous action at the local level. While the general academic and political discussion about the most adequate macro-economic measures to combat unemployment was still going on, individuals and groups at the local level had anticipated the result of this discussion already by diversified efforts for the local creation of employment (Commission of the European Communities, 1985, Annex 1). According to this report, these local employment initiatives were distinguished from traditional employment and development policy by four criteria: (1) they were not triggered externally but developed from the local community as a form of economic self-help, (2) they were based on a partnership between the different local groups, (3) they were usually oriented towards a mix of economic and social objectives, and (4) their activities were primarily geared to benefit the local community.

In the OECD-Programme on local initiatives for employment creation (ILE) 19 European countries and the United States are participating. It is a non-statutory cooperative programme fincanced separately by the participating countries. Major groups of activities are (1) information exchange and dissemination (mainly through a 'liaison letter', the 'ILE Notebooks' and 'Feed Back ILE'); (2) industrial diversification and employment generation in local economies, particularly the role of social partners, public authorities and firms to contribute to diversification, especially in old industrial areas; (3) innovation and development for employment creation in less developed regions and countries, concentrating on small and medium sized firms and untapped local resources in agricultural and potential tourist areas; (4) new roles for local economies in stimulating economic development and jobs, concentrating on the role of local government; (5) local employment generation: the need for innovation, information and suitable technology, concentrating on the factors which create a favourable climate for process and product innovation to support employment growth, including science parks and small business incubators; (6) education, training and support needs of new entrepreneurs and of local employment initiatives, concentrating on the role of educational, training, finance, marketing, legal and other services for the creation of new firms and jobs (OECD, n.d.).

The Commission of the European Communities has also, initially in the frame of its Research and Action Programme for the Development of the Labour Market, since 1982 commissioned a number of local consultations in different European countries on

local employment initiatives. Reports on these local consultations, the first for the period 1981-83, the second for 1984-85, were elaborated by the Center for Employment Initiatives, London. The objective of these local consultations was to evaluate the results of the respective local employment initiatives, to identify the obstacles and difficulties that emerged and to point to ways how these can be overcome. The consultations were concerned with local employment initiatives of great differences in ideology, motivation and activity, ranging from the creation of new private enterprises, cooperatives, rural training initiatives, to social self help and environmental protection groups and initiatives for social tourism in mountain areas (Commission of the European Communities, 1985). The second series of the above mentioned consultations put special emphasis on maritime and peripheral regions and on areas in industrial recession with a need of restructuring employment, and focussed on different forms of local support structures for the start-up and maintainance of local employment initiatives and on the relation between local employment creation and overall local and regional development. It furthermore concentrated on the function of improved animation and improved cooperation for local employment initiatives and on the identification of intermediate support structures which might be eligible for support from community funds (Commission of the European Communities, 1986). The report finds that in general advances have been made in most European countries in instituting new support structures and programmes to benefit local employment initiatives, but that the 'information and understanding of them is still, for the most part, limited to a narrow group of administrators and technical

specialists'. The authors of the report feel that some 'popular' and easily available publication and other information for 'the general public including elected decision-makers at local, regional and national levels, educators, trade-unionists and young people' would be important (p.44). To the outside observer this European situation is in marked contrast e.g. to the broad publicity which in Japan has been given in practically all the media to the new policies of local development and the techno-polis policy (Stöhr, 1986/b, Kawashima and Stöhr, 1988).

## 5) Alternative effects, approaches and local support structures of local development initiatives

Initially most local initiatives were conceived of as employment initiatives. Although the employment effect of local initiatives remains relatively small compared to the magnitude of overall unemployment (Maier and Wollmann, 1986, Commission of the European Communities, 1986/b, p.225) the social, economic and institutional significance for development, however, is very often considered equally or even more important.

In terms of social significance three approaches may be distinguished (Commission of the European Communities, 1986/a, p. 46, 1986/c, p.10 f.): First, one of 'alternative' objectives in the sense that an individual's use of worktime should not be wholly devoted to economic production and services; Second, initiatives to reach established objectives with 'alternative" instruments, oriented towards assisting persons suffering from physical, mental, social and cultural handicaps to become integrated into society; this is frequently done by offering them

a sheltered work environment which increasingly should become as 'business-like' as possible to enable them to earn an increasing proportion of their income through the marketing of their products (possibly in cooperative form) and make them successively less dependent on welfare and subvention.

A third type of social significance often consists in satisfying concrete local needs which are not fulfilled through the market mechanism, such as local environmental improvement.

In economic terms the effects of the first approach consist mainly in a redistribution of formal work and its complementation with informal types of work. The second approach consists mainly in a reduction of public funds required to assist handicapped groups, aiming to increase their self-reliance in psychological and economic terms. The third approach relates to the creation of non-market mechanisms for satisfying important local requirements.

The institutional significance very often goes much beyond this however in the sense that new forms of cooperation between individuals, social groups, but also between enterprises and institutions emerge in connection with local initiatives. These are important prerequisites for the sustained effect and reproduction of local initiatives.

Local support structures in this respect assume a key-role for local development initiatives. There exists a dichotomy regarding the support structures required for these different approaches of local initiatives, (Commission of the European Communities, 1986, p.46), in the sense that some support

structures represent predominantly traditional entrepreneurial values, while others represent primarily 'alternative' self-managed principles. In some cases, however, it was possible to combine these different approaches under one 'umbrella' organisation (p.47). In these cases of local 'synergy' it seems that local solidarity has become more important than the realisation of particular sectoral, ideological or group interests trying to retain for themselves a maximum of group benefit from development initiative. This is a question of functional (frequently also group or class) solidarity as against territorial (local, regional) solidarity.

The actual provision of support structures for local initiatives will vary accordingly: where mutual ideological distrust outweighs mutual understanding and appreciation, very often separate support structures between cooperative, 'alternative' initiatives and those for more traditional 'small enterprise' initiatives will dominate, while in other cases a single 'one stop shop' support structure for all local initiatives has become feasible (p.47). The report suggests that even if these support services were maintained institutionally separate they should at least be located in geographic proximity to each other (like shops in a department store or a shopping centre) in order to increase their general accessibility and a greater mutual understanding and appreciation of each other's work.

Local employment or development initiatives oriented mainly towards traditional small and medium enterprises will usually emphasize firm creation, technological upgrading and the

criterion of economic efficiency. Whereas local employment initiatives oriented mainly towards marginal social groups will focus on employment and service provision, relegating the criterion of economic efficiency, at least at the beginning, to a secondary role (p. 52). For sustained local development it will be important, however, that the objectives of both types of local initiatives approach and complement each other. In this case the creation of new firms and the introduction of new technologies would be accompanied by an increase in employment, while on the other hand social initiatives should increasingly (with the exception of permanently handicapped groups) attempt to move in the direction of increasing economic feasibility. A way of promoting the convergence of these two groups of local initiatives would be to increase their mutual functional support by adequate local community mechanisms so that new enterprises increasingly also play a social role, while social initiatives increasingly can be guided also by economic objectives and criteria, thereby mutually sustaining each other.

The importance of a close interaction between social / cultural and economic initiatives for self-sustained local development, as well as their mutually re-enforcing effect is illustrated in this book especially in Chapters 3 and 10. In some cases local social or cultural networks and projects also were the basis for economic initiatives as shown particularly in Chapters 4 and 9.

## 6. Preconditions for local innovation

In contrast to the deterministic macro-theories of local development referred to in Chapter 1, a number of studies have recently also been concerned with the micro-factors relevant for

local innovation. Andersson (1985) postulated a combination of local competence, local synergy and societal instability as important factors for local innovation, based to a great extent on the experience of turn of the century Vienna. Törnqvist (1987) adds to these conditions the presence of key personnages or central figures as catalysts, of communication between individuals and competence areas, of cultural diversity, economic stagnation (similar to Schumpeter's creative destruction), organizational flexibility (or the side-stepping of formal organization structures) and networks between "cultural circles" at regional, national and global levels. His examples are taken from historical studies of innovation in Renaissance-cities, of early industrial cities such as Manchester around 1840, in turn-of-the-century Vienna, as well as of contemporary cultural, artistic and economic renewal in large metropolitan areas of London, Paris, Los Angeles and New York, but also of business innovation in small towns, and of recent high technology and research-science parks in various countries.
Stöhr (1986) has analysed the major components of "regional innovation complexes" and their interaction in different societal forms such as a cooperative, a private and a "third sector" (local public-private-university-partnership) model.

Storper and Scott (forthcoming) relate innovation and future competivity closely to the introduction of technological and institutional forms of "flexible production". They consider as preconditions for the introduction of flexible specialization: local co-operation, association and co-ordination (including local consensus between labour unions, employers and local

government), the existence of local information networks and the socialization of useful local knowledge, local input-output relations and team-work and co-operation on the labour market. They maintain that these conditions are usually not given in areas of traditional mass production oriented "fordist" industrialization and that therefore flexible specialization emerges mainly in suburban peripheries of major metropolitan centers, in traditional craft communities or in previously unindustrialized communities. This approach also contains deterministic traits in the sense that certain areas (e.g. "old industrial" areas) are practically excluded from chances of developing innovation and flexible specialization. In contrast, a number of case-studies in the present volume show that such innovation in fact has also been possible in "old industrial" areas and that even these areas can overcome the societal "immune deficiency syndrom" referred to in Chapter 1.

What then are the prerequisites for avoiding or overcoming this societal immune deficiency syndrom towards international economic restructuring?

The results to be drawn from the case studies in this book happen to coincide widely with those to be derived from the Japanese and other innovation experiences (NZZ, 1988; Stöhr 1986/a; Njikamp & Stöhr 1988). They are mainly concerned with the emergence of innovation and their transfer towards a broad distribution between and within local communities. Major factors are:

- crisis conditions like those emanating from changes in the international division of labour represent a strong potential trigger for innovation and entrepreneurship in the sense of Schumpeter's creative destruction - about comparable to the challenges of natural conditions and catastrophes in pre-industrial societies;

- societal incentives and rewards must be offered (1) for individual initiatives and entrepreneurship and (2) for their orientation toward broader benefits to local society. Monetary, but also social rewards such as esteem and recognition can serve this purpose;

- institutionalised transfer of information, innovation and entrepreneurial initiative from the outside and within the local community are further key prerequisites. From the outside this may take the form of a rotation of personnel between local and outside sources of innovation (e.g. with outside universities, research centers, but also between local branch plants and outside research units of multi-site firms);

- within the locality / region this transfer can be implemented by the promotion of joint research between firms, thus helping to reduce research "incest", and by the rotation of personnel between research and production units to improve the transfer of knowledge between research and application. The promotion of a synergetic local interaction network for the exchange of information, commodities and services as bearers of innovation and cooperation proves an important vehicle for these transfers;

- promotion of local entrepreneurial cooperation as a framework for individual initiative and the orientation of its benefits. This is usually facilitated if the marginal advantage accrueing to individuals or firms from internal cooperation is kept higher than that accrueing from external interaction and cooperation. It at the same time promotes the formation of common objectives of local actors;

- broad democratic decision-making processes usually are an important prerequisite for the broad local distribution of benefits. They can also lead to inefficient resource allocation and to rigid local structures , however;

- avoid the formation of rigid local hierarchies which limit incentives for innovation and the broad diffusion of their benefits. Hierarchies in the form of differentiated responsability and access to decision-making power should be tied to specific functions, and not to specific (groups of) individuals in order to reduce the barriers for individuals to move to the functions they are best suited for. A periodic rotation of decisive functions helps to reduce such rigidities.

## 7. Important External Conditions for Local Development Initiatives

Specific external conditions seem as important as internal ones for the emergence of local development initiatives. This refers particularly to modified and sometimes new roles of central government. Traditional central government instruments for local and regional growth, oriented mainly towards incentives for

capital to increase the quantity of jobs, need to be reoriented towards more qualitative measures to increase the quality of labour and the flexibility of the capital stock, of technology and organisation.

Central government roles to be emphasized therefore are:

- facilitating information access on marketing opportunities (national and world-wide), on new technologies, on new organisational and management forms, on learning experiences of other local development initiatives,
- co-financing regional training and research development centers,
- co-financing local development organisations,
- promoting innovative persons and groups at the local level.

Many experiences show, however, that direct external intervention by central government can also distort local action processes and local feedback mechanisms.

Other important external conditions for local development initiatives appear to be:

- the allocation of substantial action, decision making and financial scope to local agencies "allowing for more effective operation of local networks" (Chapter 4),
- the reinforcement of local and regional feedback mechanisms between decisions on economic, social, political and environmental matters and their respective outcome. These feedback mechanisms appear as important prerequisites for indigenous adaptation and innovation capability, and finally
- the promotion of the flexibility of institutional structures, both at the local level and in relation to the outside.

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