

**INSTITUTIONAL NETWORKS
AND
INDUSTRIAL RESTRUCTURING:
LOCAL INITIATIVES TOWARD THE TEXTILE
INDUSTRY IN NOTTINGHAM AND PRATO**

BY

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**PH.D THESIS
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE
DEPARTMENT OF GOVERNMENT
MAY 1995**

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THESIS ABSTRACT

The effects of global change in the nature of production are most acutely felt at the local level. Local authorities have been quick to respond to these changes with a flurry of policy measures. An important debate has surfaced as to whether local initiatives can indeed mediate global restructuring in order to sustain the economic well-being of the locality. My thesis is a contribution to this debate.

The organizing hypothesis is that, under certain conditions, local activity can help to moderate the restructuring process. In particular, a locality is most effective when it possesses thick institutional networks between public and private actors that supply a wide range of services to aid industrial adjustment. Specifically, certain types of institutional networks can provide the essential infrastructure for learning, which refers to the ability of institutions to habitually adapt both these support services and their institutional relationships to meet the new politico-economic conditions engendered by the restructuring process.

My research compares how two proactive localities (Nottingham in the East Midlands and Prato in Tuscany), both historic centres of textile and clothing production but with different institutional architecture, have assisted their industry to restructure away from the mass production of low-priced goods toward the more flexible production of high value products.

Chapter one critically reviews the debate on the role of local institutions in economic development. Chapter two then discusses how different institutional networks emerge and establishes the methodology for recognizing networks, measuring thickness and assessing institutional learning capacity.

Chapters three and four present an institutional map of each locality, identifying the key institutions and the types of networks that have developed. Chapters five and six examine the evolution of both the support services provided to the industry and the institutional relations during the restructuring period to assess each locality's institutional learning capacity.

Chapter seven looks specifically at the growing, albeit recent, influence of the European Union on local institution-building in the two cases. Finally, chapter eight directly compares the two localities to draw general conclusions regarding the role of institutional networks in the industrial restructuring process and in economic development more generally.

TABLE OF CONTENTS

List of Tables and Figures

INTRODUCTION

- 1 WHAT'S LOCAL ABOUT LOCAL ECONOMIC DEVELOPMENT?
 - I. Global Change: The Rediscovery of the Local
 - II. Changing Conceptions of Local Economic Development: Changing Conceptions of Local Economic Governance
 - III. Subnational Institutions and Economic Performance: The Debate
 - A. Regulation Theory
 - B. Flexible Specialization
 - C. The Milieu or Innovative Environment
 - D. The Learning Economy
- 2 MAPPING INSTITUTIONAL NETWORKS AND MEASURING INSTITUTIONAL LEARNING: A RESEARCH STRATEGY
 - I. Understanding Networks: the Role of Power and Exchange
 - A. Categorizing Networks
 - B. Power in Networks
 - C. How Networks Emerge, Endure and Change
 - II. Assessing the Structural Constraints on Local Institutional Capacity
 - A. State Structure and Local Institutional Capacity
 - B. Industrial Structure and Local Institutional Capacity
 - C. The European Union and Local Institutional Capacity
 - III. Power and Learning in Institutional Networks: the Methodology
 - A. The Case Study Approach and the Choice of Cases
 - B. Operationalization and Measurement
- 3 THE POLICY ENVIRONMENT IN PRATO: CONSTRAINTS ON LOCAL CAPACITY
 - I. State Structure
 - A. Distribution of Powers and Intergovernmental Relations in Italy
 - B. The Local Political Class: The Dominance of Political Parties
 - C. Prato
 - II. Industrial Structure
 - A. Boundedness and Local Dependency
 - B. The Crisis and the Need for Structural Adjustment
 - III. Local Institutions and Institutional Networks
 - A. An Institutional Map of Prato
 - B. Institutional Networks in Prato

4 THE POLICY ENVIRONMENT IN NOTTINGHAM: CONSTRAINTS ON LOCAL CAPACITY

- I. State Structure
 - A. Distribution of Powers and Intergovernmental Relations in the UK
 - B. The Local Political Elite: Professions and Parties
 - C. Nottingham
- II. Industrial Structure
 - A. The UK Textile and Clothing Industry
 - B. Restructuring in the UK Textile and Clothing Industry
 - C. The Textile and Clothing Industry in Nottingham
- III. Local Institutions and Local Institutional Networks
 - A. An Institutional Map of Nottingham
 - B. Institutional Networks in Nottingham

5 LEADERSHIP WITHOUT NETWORKS: INITIATIVES TOWARD THE TEXTILE INDUSTRY IN PRATO (1975-1992)

- I. Background (1975-1982): Setting the Scene
 - A. The Public Sector
 - B. The Private Sector
 - C. A Local Forum: The Integrated Project for the Textile Industry
- II. The Crisis Years: Managing Industrial Change (1983-1992)
 - A. Promoting Technological Change
 - B. Business Support: Strengthening SMEs and Encouraging Structural Adjustment
 - C. Human Resource Policy
 - D. Building Learning Institutions: The Consulta Economica
- III. Conclusions: Networks in Prato

6 NETWORKS WITHOUT LEADERSHIP: INITIATIVES TOWARD THE TEXTILE INDUSTRY IN NOTTINGHAM (1979-1992)

- I. Phase I (1979-1987): City Leadership
 - A. Institution-building Initiatives
 - B. Initiatives Encouraging Structural Adjustment
 - C. Training and Business Support
- II. Phase II (1988-1992): County Leadership
 - A. Training and Business Support
 - B. Institution-building
 - C. Industrial Restructuring
- III. Conclusions: Networks in Nottingham

7 THE EUROPEAN UNION AND LOCAL INSTITUTION BUILDING

- I. Defining and Measuring Europeanization
- II. The Evolution of European Regional Development Policy
- III. European Regional Policy and Europeanization in Nottingham and Prato
- IV. RETEX AND REMTEX: EU Support for the Textile Industry

8 CONCLUSIONS: INSTITUTIONAL NETWORKS AND INDUSTRIAL
RESTRUCTURING

- I. Structural Conditions and Local Institutional Capacity
 - A. State Structure
 - B. Industrial Structure
 - C. The European Union
- II. Networks, Power and Learning
 - A. Assessing Local Learning Capacity
 - B. Networks and Learning
- III. Implications for Theory and Policy

Bibliography

Appendix

- I. Questionnaire (english version)

LIST OF TABLES AND FIGURES

TABLES

- 2.1 Dominant Actor and Territorial Networks
- 2.2 Measuring Boundedness: A Typology of Industrial Structures
- 3.1 Distribution of Functions by Level of Government in Italy
- 3.2 Municipal Elections in Prato (1946-1990)
- 3.3 Textile and Manufacturing Firms and Employees in the Province of Prato, 1961-1991
- 3.4 Employees by Firm Size in the Italian Textile Industry
- 3.5 Firm Membership in Craft Organizations in Italy
- 3.6 Centrality Measures of Exchange Networks in Prato
- 4.1 Elections in Nottingham and Nottinghamshire
- 4.2 UK Unemployment Rates, 1981-1993
- 4.3 Dependence of Nottinghamshire Travel-to-Work Areas on the Textile and Clothing Industry
- 4.4 Employees by Firm Size in the UK Textile Industry
- 4.5 Centrality Measures of Exchange Networks in Nottingham
- 5.1 Bank Investments and Deposits in Selected Italian Municipalities
- 5.2 Centrality Measures of Policy and Exchange Networks in Prato
- 5.3 Local Initiatives toward the Textile Industry by Dominant Network in Prato
- 6.1 Centrality Measures of Policy and Exchange Networks in Nottingham
- 6.2 Local Initiatives toward the Textile Industry by Dominant Network in Nottingham
- 7.1 Average Contribution of the Private Sector to the CSFs by Country (1989-1991)
- 7.2 Funding of the UK and Italian CSFs (1989-1991) in Regions with Objective 2 areas

- 7.3 Distribution of Financial Responsibility by Type of Measure in the Tuscany CSF (1989-1991)
 - 7.4 Distribution of Financial Responsibility by Type of Measure in the Eastern England CSF (1989-1991)
 - 7.5 Percent of Total CSF Funding by Type of Measure in Tuscany and Eastern England
 - 7.6 East Midlands Regional Partnership for the Structural Funds
- 8.1 Measuring Learning Capacity in Prato and Nottingham
 - 8.2 Policies by Network Type in Prato and Nottingham

FIGURES

- 2.1 A Theoretical Model of Institutional Thickness
- 3.1 Italian Textile Firms by Region
- 3.2 Territorial Agreements between the UIP and the Trade Unions, 1945-1987
- 3.3 Structural Equivalence of Network Actors in Prato: A Block Model
- 3.4 Institutional Networks in Prato
- 4.1 UK Textile and Clothing Employment by Region
- 4.2 Manufacturing Employment in Nottinghamshire
- 4.3 Institutional Networks in Nottingham
- 5.1 Block Model of Policy Networks in Prato
- 6.1 Policy Networks in Nottingham
- 7.1 The Growth of the Structural Funds, % of Total EU Expenditure, 1975-1993

INTRODUCTION

We are in a period of great social and economic transformation. Although many of these changes are global in dimension, their consequences are most acutely felt at the local level. Accordingly it is subnational governments that have been left to contend with the serious spatial effects of industrial decline as firms close, unemployment rises and the demand for social and collective services increase. Subnational governments have responded to these circumstances with an explosion of economic development initiatives.

In characteristically academic fashion, a multi-faceted debate has emerged questioning both the relevance and the effectiveness of subnational activity for mediating the effects of global political and economic restructuring. My thesis is a contribution to this debate. I intend to demonstrate that, under certain conditions, local authorities can play a significant role in the promotion of economic development generally, and the restructuring process, more specifically. The purpose of this thesis, however, is not to deny the overwhelming importance of national and international circumstances for moulding local fortunes but rather to affirm that local conditions matter as well. Uneven development is certainly not reducible to local activity but--and this is the crucial point--neither is it separate from it. Space does exist, although the size of that space varies considerably,

for influential local initiative.

Briefly, my central hypothesis is that the conditions which best support a locality's ability to manage industrial restructuring are if it possesses (or is able to build) thick institutional networks linking up public and private resources at multiple levels of interaction and if those networks have a learning capacity whereby institutional relationships and policies adapt to meet changing politico-economic conditions. This institutional capacity is shaped and conditioned by the structure of the State and the territorial and functional division of power and resources, the structure of the industrial sector and its boundedness to the political administration, and the manner in which the locality is effected by and can take advantage of the policy environment of the European Union

To test these ideas, my thesis compares the activities of two localities, Prato in Tuscany and Nottingham in the East Midlands, both historic centres of textile and clothing production, an industry which has long been in the throes of industrial restructuring. For over the past decade, the local authorities in both cases have vigorously tried to assist the industrial adjustment process with a wide range of locally-generated services and support mechanisms. The cities' institutional architecture, however, is quite different. Through a comparative analysis of both cases, I hope to demonstrate that a locality with strong and interactive linkages between the public and private sectors at multiple levels of interaction can, indeed, mediate the restructuring

process, while a locality without such mechanisms will find it much more difficult.

The thesis is comprised of eight chapters. Chapter one discusses the global changes in progress and demonstrates why they have led to the (re)emergence of the region/locality as an important locus of economic development activity. Paralleling these political and economic transformations, there has been a similar shift in economic development models employed by economists and policy-makers. In particular, there has been the growing emphasis on the importance of local or endogenous factors for understanding uneven development. Finally, the last part of chapter one then critically assesses the debate concerning the role of local institutions in economic development. I conclude that the learning economy approach, which stresses the importance of dense institutional networks, is the most robust method for evaluating local attempts at economic governance.

Chapter two identifies different types of institutional networks which can emerge and hypothesizes which may best support a local learning capacity. In particular, the structural characteristic of density (the number of local institutions and the degree to which they are networked) is proposed as the determining variable of learning capacity. I then look at the constraints on and opportunities for local capacity building which emerge from the broader policy environment; in particular what effects the state structure, the economic structure and the growing influence of the European Union have had on the development of local networks

and local learning capacity. Finally, the methodology of the study is outlined. A comparative case study approach is used because of its ability to highlight the importance of the institutional context and integrate a variety of data sources. In depth interviews with local policy-making elites using a semi-structured questionnaire provides the centre of the study. Institutional networks are evaluated through the use of social network analysis, a statistical technique which can reveal network structure, measure network density and identify the distribution of power among the various actors. Additionally, a range of variables for measuring local learning capacity are also set forth.

Chapters three and four look at the wider policy environments of Prato and Nottingham. Chapter three demonstrates that Prato possesses dense, integrated institutional networks that emerged from overlapping functions among levels of government and weak powers in the field of economic development. Lacking such powers, local authorities have had to rely on the aid of private sector associations to accomplish development objectives. Complementing this institutional architecture, the political decentralization of power to the regions in Italy is paralleled by the economic decentralization of the industry to locally-dependent industrially districts; a situation which also has encouraged the build-up of local institutional capacity in the field of economic development.

Chapter four shows the development of very different types of networks in Nottingham. The presence of central

government departments rather than an autonomous region and a trend toward the growing centralization of power in Britain has promoted the development of multiple, disconnected issue-based networks with a national rather than local orientation. The increasing centralization of political power, however, is at odds with growing signs of some economic decentralization of the textile industry, a circumstance which can only hinder local support of industrial restructuring.

Chapters five and six examine how policy support and network relationships has evolved over the past 15 years. In Prato (chapter five), learning is clearly evident. Networks move from working in bilateral to multilateral fora in response to the economic crisis and expand to include a wider range of actors, who can provide new resources required to meet the changing needs of successful industrial production. Policy support increases in both number and scope, again adapting output to meet changing industrial requirements.

In Nottingham (chapter 6), alternatively, innovative policy measures designed to strengthen the trend toward economic decentralization and help the industry adapt to changing international demand were, over time, gutted of both content and institutional support. The inability to create institutional networks to support industrial restructuring, and the continuing decline of local resources resulting from Central policies, led to a scaling down of the scope of their local initiatives, from wide-reaching strategies to support restructuring to a minimal strategy of providing low cost workspaces to local firms. Only the later usurpation of the

policy leadership role by the county authorities allowed for the preservation of some vestiges of local learning and continued support for industrial restructuring.

Chapter seven looks at the growing role of the European Union on local capacity. Although there is evidence that the European Union has strengthened, somewhat, the role of local authorities in the development process, the research also suggests that areas with strong local networks are better able to exploit the opportunities presented by an increasingly European policy environment.

Finally, chapter eight draws general theoretical conclusions that emerge from the findings of this thesis. Overall, the evidence seems to support the hypothesis that dense institutional networks enhance local learning capacity and are more effective at moderating industrial restructuring. Furthermore, the findings indicate that when the local policy process is dominated by central state departments, promoting vertically-structured intergovernmental networks, then learning capacity and subnational public/private interaction are clearly impeded. On a more theoretical level, the research suggests that economic development is a socially and institutionally embedded process. Thus state and market forces are shaped by local and regional conditions; calling into question the validity of the state/market dichotomy as an appropriate organizing framework for understanding development.

Before moving onto the thesis itself, I would like to first express my gratitude to all the people who have helped

and supported me throughout the course of my efforts. I am most indebted to Robert Leonardi, who has been supervisor, mentor and friend. He has patiently read and reread numerous chapter revisions, encouraged me to develop my ideas, and spent long hours discussing all the ins and outs of regional development. For it was my work with Bob before arriving at LSE, and during the Ph.D. odyssey, which originally kindled and later maintained my interest in local economic development. As difficult as it has been sitting on the theoretical fence, constantly explaining to interested observers that, truly, I am not an economist, I would not have had it any other way.

For their financial support, I am grateful to the Suntory-Toyata Centre for Economics and Related Disciplines (STICERD), the ORS and the Central Research Fund at the University of London, which funded my research trip to Italy.

I thank wholeheartedly the numerous people who have helped me in a wide variety of ways: Prof. Robert Bennett, Louise Crewe, Gabi Dei Ottati, Keith Dowding, Prof. Patrick Dunleavy, Steve Godfrey, Jürgen Grote, Daphne Josselin, Maria LaFalce, Howard Machin, Barbara Piergallina, Fabrizio Pizzanelli, Marco Romagnoli, Peter Totterdill and the participants of the LSE Political Institutions seminar. I owe a special thanks to the support of Professors Raffaella Nanetti, Kevin Morgan and Gareth Rees who have always been available to read any of my work, answer any of my question, and just provide overall encouragement when things felt bleak.

Finally, to Vittorio Bufacchi for his enduring support through the peaks and troughs, good times and bad times. If he had not been there, I doubt whether this thesis would have ever become a reality. He has made all the difference.

1. WHAT'S LOCAL ABOUT LOCAL ECONOMIC DEVELOPMENT?¹

INTRODUCTION

Evidence of socioeconomic transformation is all around us. Widespread economic restructuring, spiralling unemployment, urban and regional deprivation, and mounting crime rates all provide damning testimony of the magnitude and suffering wrought by these changes. Compounding the plight of declining regions, there has been a general trend of state retrenchment from the economy, leaving subnational authorities to struggle with the expensive, painful consequences of decline. Accordingly, subnational authorities have replied with a myriad of initiatives intended to moderate the problems of economic restructuring.

Despite the good intentions of local authorities, one must keep in mind that economic development policies initiated

¹ I use local in the broad sense to include any subnational grouping. Within this chapter, I will use region, local, and subnational somewhat interchangeably. The ambiguity is deliberate because what constitutes the appropriate level for development will vary across areas, thus at a theoretical level, the most important concept is that the area in question is subnational. Later on in the thesis, when I refer to specific authorities and the territory under their jurisdiction, then the terms local and regional will take on a more concrete meaning corresponding to political boundaries.

at the local level may not be a determining influence on outcomes but rather may be epiphenomenal to the activities of wider social, economic and political forces (Dunleavy, 1980). My intention, however, is not to dispute the significance of national and international circumstances, for they are indeed crucial variables influencing local economic fortunes, but rather to demonstrate that local conditions can be equally important components of local prosperity or decline.

This chapter assesses, at the theoretical level, the potential of local activity to make a contribution to economic success. Section I examines the economic and political transformations in progress and their influence on local development activity. Section II briefly outlines the evolution of local economic development models. The growing recognition of the institutional context of development is highlighted. Finally, section III then critically surveys the literature on local institutions and development. The learning economy approach will be shown to be the most suitable for a comparative analysis of how localities respond to industrial restructuring.

I. GLOBAL CHANGE: THE REDISCOVERY OF THE LOCAL

Both political and economic variables have pushed the locality to embrace an increasingly more prominent role in economic development². The political components include the hollowing

² This division is a stylistic tool used for clarity of argument. Clearly, in the real world, the two processes feed off each other, and only ideology allows us to identify the driver

out of the state, the decline of regional policy, and increased interregional competition in the field of economic development. The economic factors centre on fundamental but uneven changes in the production process, with special reference to the globalization of the economy. As shall be demonstrated, although these factors may support a local/regional renaissance, they also, simultaneously, establish new constraints on subnational activities.

On the political stage, the internationalization of economic processes (see below) has weakened the ability of the state to effectively regulate the economy within its own borders. Jessop points out "[T]his loss of autonomy creates in turn both the need for supranational coordination and the space for subnational resurgence" (Jessop, 1994: 264). Consequently, states have reallocated powers and functions down to other actors (such as other levels of government, the private sector, or quangos) or up to international forums such as the European Union (EU). This, in turn, has encouraged a growing relationship between the EU and the regions which has thrust subnational authorities onto new economic and political playing fields. The initiation of partnership arrangements between the EU, the member-state and the regional government in the implementation of the Structural Funds³, the newly formed Committee of Regions, the increased importance of the

of the process.

³ The partnership contract, which is a legally binding contract under EU law, is between the EU, the national government and the subnational authorities for the design and implementation of EU regional policy.

goal of social and economic cohesion, and the growing number of unofficial regional and local offices being set up in Brussels are all evidence of the this new role.

Paradoxically, although the increasing power of the EU promises, on one hand, new allies, resources and greater policy space, it threatens, on the other hand, a more complex legal and regulatory environment which will put new constraints on subnational activity. In addition, the succeeding pressures on subnational governments for greater policy intervention have not necessarily corresponded with increased financial and administrative capabilities. Although they have gained added responsibilities, they have not necessarily obtained the resources necessary to successfully carry them out.

These changes in the state have been paralleled by changes in state policy--especially spatial development policy. After the 1973 energy crisis, which signalled the end of the uninterrupted growth period since the end of the second World War, increased attention to national macroeconomic policy meant a decreasing concentration on regional policies in most Western European states (Swyngedouw, 1989). As a result many economic peripheries feared an increased gap between stronger and weaker regions (Rokkan and Urwin, 1983). The long term response to this trend has been an increase in subnational government policy activity in the field of economic development, especially as subnational authorities have been forced to shoulder responsibility for the host of problems that have emerged from the industrial restructuring

that continues to dominate the European landscape.

Finally, the overall increase of subnational policy activity in the area of economic development has pressured other local authorities into undertaking similar initiatives. As certain regions and localities become more active in response to changes, it spurs other regions to become more involved through the demonstration effect. Equally, competition between regions for investment and employment drives regions to invest in and promote their different packages of labour skills, labour costs, business environments, and physical and social infrastructure.

Although increased competition may help fuel the search for new and innovative solutions to deep-rooted social and economic problems, it is also likely to contribute to those problems. In particular, policies undertaken by local governments to attract big firm investment often result in a negatively-slanted prisoners' dilemma (King, 1990). The outcome of the dilemma is that if one local government offers a package of incentives, all must offer comparable incentives or face the prospects of having their businesses relocate. However, if all offer incentive packages they are back to square one and businesses locate where they choose but the local economies will have been weakened as a result because of the costs (increased spending, decreased business tax revenue) of planning and implementing the policies (*ibid.*).

On the economic dimension, a strong case has been made for the (re)emergence of the locality by observers of economic production processes. The transformation of production, in

particular the move from mass production toward more flexible production methods, has reinforced the region or locality as a key locus of socio-economic governance (Storper, 1994a, Sabel, 1989, Hirst and Zeitlin, 1991, 1989, Scott, 1988, Aydalot and Keeble, 1988, Piore and Sabel, 1984).

The argument runs as follows. Increasingly fragmented and internationalizing markets, rapidly changing demand and the shortening of production and product cycles favour firms, often small firms, which employ more flexible production methods rather than those used in mass production processes.⁴ Greater flexibility can be achieved in two fundamental ways⁵, either through the horizontal integration of spatially-concentrated small firms or through the flattening out of vertically-integrated corporations. The conspicuous development of horizontally-integrated, spatially concentrated small firm-based production systems (the most articulated versions are known as industrial districts) in Italy, Germany, Denmark, Austria, France and the U.S. has integrated the region as a consolidated system of production, hence strengthening its potential as a key economic actor (Sabel, 1989).

Equally, the flattening out of vertical corporations both locally, through the increased use of sub-contracting, and

⁴ Mass production refers to the use of product-specific machinery worked by unskilled or semi-skilled labour to produce standardized goods for a price-driven, undifferentiated marketplace. Prices are kept low through the establishment of economies of scale.

⁵ Clearly this is a gross oversimplification of the multiple, diversely articulated forms of flexible production. It is used for conceptual purposes only.

globally, through the establishment of production units in third countries has also fuelled the local/regional renaissance. Stronger producer-subcontractor and producer-user networks fortify the local economic fabric by simultaneously weaving the firms more deeply into both a common territorial space and the international marketplace (Sabel, 1989). Concurrently, the increasing decentralisation of larger firms and the unremitting search for process and product innovation can blur the former distinction between core (headquarters) and periphery units (i.e. branch plants) implying greater autonomy for periphery firms. Where these firms were once seen only as vassals of central control, some now represent potential centres of innovation in their own right which can effectively engage the local milieu (Schoenberger, 1994).

As compelling as this localisation thesis may be, we must recognize that although mass production has been successfully challenged by more flexible production techniques, reports of its death have been greatly exaggerated. Rather, what is emerging are patchworked, unevenly dispersed patterns of coexisting production processes. As emphasized above, uneven development is only partially explained by differing local circumstances which is, paradoxically, validated by the success of industrial districts which emerged in rather unique circumstances and, as a result, have proven difficult models to export (See Section III-B.).

Although the emergence of localities is indeed a real and important trend, it can only be interpreted within the context of a changing, globalizing political economy. These changes

include (Amin and Thrift, 1994a: 2-5): i) the global centralization of the financial system and the resulting dominance of finance over production; ii) the importance of knowledge and expertise as a factor of production; iii) the transnationalization of technology and the increasing speed of the redundancy of new technology; iv) the rise of global oligopolies; v) the rise of transnational economic diplomacy, effectively globalizing state power along with production, finance and knowledge; vi) the globalization of communication and immigration flows leading to the rise of global culture flows and the delinking of identities and symbols from territory; and vii) the result of all of the above is the development of global geographies; the breakdown of borders and the rebuilding of such in a manner which is different from what had come before.

The recognition of the significance of the global does not diminish the importance of the local (*ibid.*). The local is embedded in the global, however, thus the degree to which it can mediate this relationship shapes its ability to mould its economic development trajectory. The relationship between globalization and local action is not one in which the presence of one negates the relevance of the other. Instead, the interaction of these processes is the foundation of the way in which a locality conceptualizes itself. Amin and Thrift (1994a) write:

Globalization, thus, represents a redefinition of places as juxtapositions of intersecting, overlapping, and unconnected global flows and historical fixities. It characterizes localities as territories living with different bits and pieces of transnational division of labour as well as their own inherited industrial

practices; as territories composed of immigrant communities evoking imagined homelands, middle-class dwellers soothed by 'authenticity' of distant exotic cultures, and working-class communities evoking a sense of place rooted in local traditions; and as territories selectively drawing upon rooted or imagined stories and myths to mobilize or subvert a common sense of regional identity (across real local social and economic divisions), in order to 'capture' the global (e.g. investment) or resist it (e.g. regionalism) (p. 10).

The question remains, however, can local activity can successfully maintain and/or secure adequate economic well-being within the global (*ibid.*)? The answer depends on both the way the locality is inserted into the global, and the functionality of its political, economic and social institutions. This thesis will explore this question by comparing the attempt of two localities to help their textile industries adapt to these global economic changes.

This section has indicated that recent economic and political trends have opened up space for effective local economic governance, although the amount of space depends on the interaction of local conditions with national and international activities. Paralleling these political and economic changes, or perhaps partially in response to them, the main models of economic development have similarly evolved. The next section looks at this evolution of local economic development (LED) models in order to identify, in more precise terms, the role played by the locality in the governance of the economy.

II. CHANGING CONCEPTIONS OF LOCAL ECONOMIC DEVELOPMENT: CHANGING CONCEPTIONS OF LOCAL ECONOMIC GOVERNANCE

As this section will outline the governance mechanisms implicit in the main models of economic development, it will first be useful to define economic governance. Economic governance is broadly conceptualized as "the full range of institutional possibilities for deriving collective decisions in an economy (Hollingsworth and Lindberg 1985: 221)." More specifically, economic governance refers to the range of activities of social, political and economic agents and the patterns which emerge from those activities that serve to guide, control or manage the economy (Kooiman, 1993). The main models for understanding economic governance are identified by the key regulatory institutions of each model; community, market, the state (or hierarchy) and, more recently, networks or associational governance (See Schmitter, 1990, Streeck and Schmitter, 1985 for an extended discussion of these models). In actual analysis, none of these models function in isolation from one another, and often find themselves in conflict with each other.

A brief review of the literature on economic development models will show that as our assumptions concerning the motor of development changes, so does our understanding of governance, especially local governance, and the balance achieved among the different regulatory mechanisms. The literature can be subdivided into two top-down, bottom-up and

mixed approaches to development⁶.

From the post-war period until the early seventies, the top-down model, rooted in neo-classical economic theory, dominated the thinking on LED. Within this approach, the spontaneously equilibrating market was assumed to play the primary role in economic governance. This model rested on the supposition that the world was bifurcated into core and periphery regions. Capital and labour, the key factors of production, were assumed to be mobile and would flow between core and periphery. The differing costs of capital and labour between core and periphery would close the gap by equalizing factor prices since capital moves from regions where it is abundant to regions where it is scarce and labour flows from where employment is scarce to where it is abundant (i.e. the Hecksher-Ohlin model of factor-price equalization). Regional variation was seen simply as the outcome of different regional comparative advantages which were self-correcting over time (Scott and Storper, 1992). The free market would foster development; thus public policy should only be used sparingly to compensate for externalities and market failure.

Within this paradigm, however, a debate soon emerged around whether the flows of these factors of production actually did decrease the gap between poorer and richer

⁶ These are general categories. Within each, there is a rich and varied literature. As the purpose of this section is to indicate that many of the classical assumptions concerning development have been challenged, this general division is more than sufficient. Section III which examines the most recent aspects of debate over the past ten years provides the primary literature review.

regions⁷. Proponents of the cumulative growth model (Myrdal, 1957, Hirschman, 1958) argued instead that both labour and capital flowed to regions of abundance because economies of scale and agglomeration effects enhanced a region's export potential. Backwash factors, as outlined by Myrdal (1957), exacerbate disparities because the prosperity of core areas serve as a lure for skilled workers, business leaders, educated individuals and venture capital that abandon the peripheral regions from which they originated, causing a brain, skill and capital drain on the periphery. Additionally, the economic efficiency of core regions enables them to sell their products in the periphery at competitive prices, further weakening the periphery's economic structure. As a result of these dynamics, the periphery can only develop in one of two ways. Backwash effects can be counterbalanced by spread effects whereby core regions tend to spread into periphery regions which often have natural resources or some other comparative advantage which can stimulate some investment. When spread effects are greater than backwash effects, development will occur. A second phenomenon outlined by Hirschman (1958) is the growth pole effect whereby growth in urban areas trickles down into more rural areas as population and industry spread beyond city borders. In either case, although there are certain equilibrating forces within the market, they are only partial at best, indicating a greater role for the state in solving development problems.

⁷ This model had a third variant; the dependency model which argued the core actively underdeveloped the periphery (See Scott and Storper, 1992, Gunder Frank, 1974).

Given these general assumptions concerning mobile factors of production, traditional local economic development policy was oriented to meet two objectives: to insure price competition and reduce production costs for firms, usually through the provision of infrastructure and incentives for industrial relocation--referred to as regional policy. To accomplish these goals, the state would offer subsidies to protect industry from international competition, use fiscal and tax incentives to encourage investment in the periphery, and increased income transfers to individuals and households to augment local consumption (Cappellin, 1993, p.62). In particular, to attract industry to the peripheral regions, tax abatements, loan packages, and infrastructure and land development were offered as a means of reducing production costs (Mier and Fitzgerald, 1991). As a result, these models focused primarily on identifying the macro causes of regional growth and development, rather than asking to what extent local activity and local institutions can actually shape that development (*ibid.*). Instead, the main political actor was the central state, hence the label top-down approaches.

Over the years, top-down approaches have been shown to be flawed in a number of ways. Specifically, they had overestimated the ability of poorer areas to attract investment even with substantial incentive packages, encouraged a welfare dependence mentality, and had inadvertently endowed a sizable portion of economic activity into the hands of a centralized public sector bureaucracy which effectively redirected entrepreneurial skills from

investing in self-sustaining development to milking the public cow (Cappellin, 1993, p.7). Additionally, unanticipated trends in the 1970s, de-industrialization, industrial decline, the dual plague of high inflation and high unemployment, and general scientific evidence,⁸ have challenged (although not invalidated) the top-down approach.

In response to the flaws in the top-down model, bottom-up approaches, which start with different assumptions regarding the important inputs of development, came to the fore of the debate during the 1970s and 80s. Specifically, top-down approaches are believed to overlook three key components of the local economy that have significant implications for development: the organizational structure of the economy, the organization of territory, and the role played by subnational institutions (ibid.). Consequently, the bottom-up or endogenous models of development begin with an assumption completely contrary to the traditional theory; that the significant factors of regional development are, in fact, immobile. These factors include infrastructure, labour skills, sectoral structures, technical and organizational know-how, urbanized economies and local institutional arrangements (ibid.).

Endogenous development is oriented toward helping local and regional economies exploit, to their own advantage, the changes currently occurring in productive organization and

⁸ Studies by the European Union (CEC, 1991b), for example, have concluded that these traditional policies had generally failed, and that regional disparities within Europe had not been substantially reduced.

communication technology (section I)⁹. Bottom-up development seeks to integrate "all aspects of life within a territory defined by its culture, resources, landscape and climate" (Nelson, 1993: 52). Thus it acknowledges that development is a multi-dimensional concept not reducible simply to economic factors but must include social, political, cultural, historical and institutional considerations to be understood properly. Economic development is embedded in social and political processes which have specific geographical and institutional implications (Granovetter, 1985). Development from below concentrates on factors which influence the adoption of new production processes and product innovation rather than on prices of various production inputs. It is not about building industries *per se* but modernizing the technical and organizational capacity of the economy. Garofoli (1992) notes:

Endogenous development means in effect: a) the capacity to transform the social-economic system; b) the ability to react to external challenges; c) the promotion of social learning; d) the ability to introduce specific forms of social regulation at a local level which favour the aforementioned points. Endogenous development is, in other words, the ability to innovate at a local level (p.7).

Consequently, disparities result from the differing speed in which a locality can adopt innovation. Costs of adjustment will be determined by the economic, social, political and cultural obstacles to adopting new technologies and innovation.

Endogenous development suggests a different range of

⁹ As pointed out earlier, the emergence of these new development models parallels the debate on global transformation.

policies than those advocated by the more traditional theories. Appropriate measures include research and development investment, technical and managerial training provision, the supply of quality business services, incentives to create networks among firms and organizations as well as among local public and private actors, and environmental and urban policies to build an attractive business environment. However, the choice of policy is determined by local need and tailored to exploit local capacities and advantages. Such policies, however, are more likely to be successful in states which have a greater degree of decentralization and local fiscal autonomy.

Decentralization implies that a higher degree of coordination among various levels of government is also required. Although this model stresses the activities of local actors, it recognizes that they work in national and international frameworks which shape and constrain local capacity. Local policies are only one part of the overall picture and must be complemented by appropriate policies at both the national and European levels.

Unlike the earlier models, growth in this model is not directly about size (i.e. economies of scale), the manufacturing industry and land development (although these are not ignored). Rather it is about developing internal advantages¹⁰ whatever they may be and managing social and economic change. Economic governance is no longer envisaged as

¹⁰ Recent work, for example, points to the development and care of a cultural and environmental heritage as one possible strategy (Konsola, 1993).

simply some market-state balance with heavy emphasis on the market, but rather, this model acknowledges that these forces can be mediated by subnational institutions in ways that affect a locality's development potential, either positively or negatively. Hence endogenous development broadens our understanding of economic governance to include the regulatory activities of local as well as national and international actors.

However, as stressed throughout, local initiatives alone, although important, are in and of themselves inadequate to the task of economic development. Especially in areas that do not possess key skills, technologies, innovative capacity, and an entrepreneurial culture, some of the older policies such as the attraction of inward investment which can bring in some of these resources, is still an important policy measure. As has been stressed, the locality is embedded in the global, making both endogenous and exogenous policies important tools of balanced development. Recently, in the 1990s, the debate has embraced this mixed model of development. The emphasis, however, remains on the invisible factors of development; enhancing innovation potential, building institutional capacity and constructing public/private networks to exchange ideas of best practice (Morgan, 1994). The most effective policy mixes (endogenous/exogenous) to achieve this will depend on how the local economy is structured and inserted into the global economy, and the arrangements of local institutions.

In sum, I have shown that the debate regarding economic

development has shifted from an over-concentration on market-state governance mechanisms to a wider conception of development which allots a key role to subnational institutions as important mediating factors which can shape the development process. However, we still do not have a clear picture of the exact role of subnational institutions; how in fact can they mould local economic fortunes. The next step, then, is to critically review the debate which has surfaced over the last ten years over the role subnational institutions play in the development process.

III. SUBNATIONAL INSTITUTIONS AND ECONOMIC PERFORMANCE: THE DEBATE

After first defining what is meant by institutions, this section will then assess four general approaches¹¹ to the study of institutions and development: a) regulation theory, b) flexible specialization, c) the local milieu, and d) the learning economy. The learning economy approach will be shown to be the most useful analytical tool for a comparative study of subnational institutions and economic development.

Institutions refer to the organizations involved in

¹¹ Some might argue that there is a fifth school referred to as the California school of external economies (Storper, 1994a) and includes the work of Scott (1988), Storper and Christopherson (1987). These scholars explained regional development through the role of transaction costs, agglomeration economies, the division of labour and input-output linkages and only in their later works did they insert institutions as an important explanatory variable. Since institutions were added as an afterthought, when their own explanations proved only partial, these works have been excluded.

economic governance and the rules of the game that structure relations between those organizations (North, 1990, Hall, 1986). Those rules are articulated formally and informally. Informal rules evolve from the culture, traditions, and social behavioral codes that provide a fluid connection between the past, present, and future. Alternatively, formal rules are elaborated through contracts, agreements, Constitutions, laws as well as any other established, legally-binding arrangements among participants. Since subnational institutions mediate the impact of both the state and the market on individuals, they represent the meso-level or intermediate form of governance.

By providing stable rules and procedures that facilitate exchange and direct the flow of information (hence reducing uncertainty), institutions provide the framework in which individuals and organizations can achieve, and mutually benefit from, joint or collective action¹². We should not assume, however, that stability is equivalent to efficiency or generalized prosperity (although it might be). Rather, stability is the result of the given bargaining strength of the participants at any given point in time in which no organization wants to allocate resources to changing the rules of the game, as it is the bargaining strength of actors that shaped the institutions in the first place (North, 1990). It follows then that economic dynamism or backwardness is a function of the way in which institutions develop and change, and, implicitly, of the way in which resources (and power) are

¹² Alternatively, institutions can also prevent the achievement of collective action. This will be elaborated in more detail in chapter two.

distributed both locally and between the local, national and global.

A lively, multidisciplinary literature has examined, in various ways, the linkages between institutional architecture and local economic performance. The first approach evaluated is the Parisian regulation school, which offers a meta-theory of global economic and institutional change with relevant insights for understanding these interactions at the subnational level.

III-A. Regulation Theory

A theoretical link uniting economic processes, socio-political institutions and spatial patterns has been articulated at a general level by the Parisian regulationist school¹³ (Boyer, 1988a, 1988b, 1990, Lipietz, 1987, Aglietta, 1979). According to these scholars, the dominant organization of economic production (regime of accumulation), which is global in scale, is stabilized over the medium-term by a complex web of sociopolitical institutions which is articulated at the level of the nation-state (mode of social regulation or MSR). Since the MSR provides the necessary norms and institutions that support the reproduction of the regime of accumulation, through its ability to mediate, in the medium-term, the crises inherent in capitalist processes, economic growth and development are stimulated when a

¹³ There are a number of separate schools within Regulation theory. See Jessop (1990) for a comprehensive review.

particular regime of accumulation is united with a compatible MSR. Over time, the crises will eventually overpower the MSR, leading to the breakdown of the old system and hindering growth and development generally. Growth will be engendered anew when a new organization of production and a new system of regulation are successfully joined¹⁴.

Regulation theory may mistakenly give the impression that change is revolutionary since it moves dramatically between distinct historical periods. However, as regulationists themselves portray, although change causes great upheaval, the new structures and institutions emerge from within old structures; thus continuity is also a fundamental part of the new system of regulation (Peck and Tickell, 1992). In other words, the new system is forged from the old and is thus historically and geographically contingent on that which came before.

Accordingly, the coupling of a particular organization of production with a system of regulation has explicit spatial (and temporal) characteristics. Lipietz (1987), in particular, identifies the nation-state as the stage on which these processes converge. He notes "...in reality, struggle and institutionalized compromise tend to arise within the framework of individual nations..." (p.21-22 cited in Peck and

¹⁴ Historically, there have been four regimes of capitalist accumulation and corresponding MSRs: 1) extensive accumulation managed by old regime regulation; 2) intensive accumulation without mass consumption (Taylorism) governed by competitive regulation; 3) intensive accumulation with mass consumption (Fordism) regulated by the welfare state; and 4) currently, post-fordism is argued to be surfacing, although its corresponding MSR is not fully developed (or at least has not been recognized as such).

Tickell, 1992: 351).¹⁵ Each state possesses its own specific mix of assets and liabilities that have emerged from factors such as the allotment of natural resources, the timing and nature of development, economic structure, and inherited social practices. Consequently, the institutional architecture of regulatory systems varies across nation-states; each with specific regulatory instruments, functions and forms. A quick glance at the international fortunes of nations suggests that certain systems of regulation are much more functional than others. Put more precisely, successful development has distinct geographical and institutional implications.

By focusing on the nation-state level, however, the question of uneven development within nation-states is completely overlooked. More recent work by Peck and Tickell (1992) tries to extend this analytical framework to cover uneven development within nation-states as well. They suggest that if national spatial variation of regulation is a vital component of global capitalism, it follows that regional variation is similarly important to national economic and social organisation. Like the nation-state, regional systems, which have their own mix of assets and liabilities, are also shaped by their historical-institutional context and, of current salience, by the ability of their systems of regulation to adapt to (or mediate) the new conditions emerging from global restructuring. Also analogous to nation-states, certain regions will have systems of social regulation

¹⁵ Lipietz, Alain (1987) Mirages and Miracles: The Crises of Global Fordism, London: New Left Books.

that promote development; others will have dysfunctional systems that inhibit it. Ergo, we should expect to see diverse regional systems of governance which interact directly with national systems; this interaction then further increases the variation between regions and, ultimately, between states.¹⁶

Currently, these scholars suggest that we are in a period of transition to post-fordist productive methods. Through careful study, enough evidence has been gathered to indicate that production methods are evolving more flexible structures. The organizational implications of this transformation include a decentralization of hierarchical corporations, an increase of networking and joint ventures both between producers and users and producers and their subcontractors, the integration of research and development directly into production, high quality products at reasonable costs, and sufficient training to provide broad, flexible skills (See Boyer, 1990 for a fuller explanation). Although certain institutional changes in the economic arena have been recognized, the corresponding MSR (institutional changes in the social and political spheres), has yet to be identified (Peck and Tickell, 1992).

Regulation theory highlights a number of important aspects for understanding economic development. It demonstrates clearly the important relationship between economic growth and the reproduction of the sociopolitical system. Hence, its viewpoint is a holistic one which implicitly recognizes the multi-dimensional character of

¹⁶ When looking at Europe, the activities of the European Union adds yet another layer of complexity to this interactive process.

development. Additionally, some of the more recent work, particularly Peck and Tickell, have made important initial links between the global economic trends and local responses, driving home the earlier argument that local development is a function of both local institutions and the insertion of the local into the global. Finally, it stresses the importance of contingency--in other words the way a locality adapts is shaped by past as well as current institutions and thus is inseparable from spatial influences. Ergo any analysis of institutions requires an appropriate time frame and geographical focus.

This theory is also subject to a number of shortcomings. We must ask if the different national and regional patterns of economic growth are truly theoretically compatible with the concept of a single international regime of accumulation and regulation (Hirst and Zeitlin, 1991, pp.20-21)? Although fordism is internationally prevalent, it has always coexisted with alternative methods of accumulation and regulation both across and within countries. The case of Italy with fordist factories in the north and small firms in industrial district in the centre clearly puts that assumption to the test.

Additionally, although it acknowledges the importance of the institutional environment generally, it is still, in some ways, underarticulated within the theoretical framework. More specifically, institutions mediate crises in capitalism until finally, they are overwhelmed and break down; but is this true of all institutions? Why do they weather some crises but not others? Do institutions simultaneously break down across the

board? This is not intuitively obvious. Rather, one might suspect that some institutions or institutional arrangements can adapt or react to crises in different ways, hence the unevenness of the economic landscape within and between countries and the presence of multiple methods of productive organization and social regulation present at all times. Which leads us to another question--is it the marriage between specific institutional arrangements and production methods that matters or is it the ability of institutions to adapt to changes in production that is the crucial variable? If learning rather than structure is the important variable, then the exact configuration of the institutional support system could easily differ between spaces even if the method of production were similar. In other words, as I will argue in III-D, the diversity of productive systems and institutional arrangements is better explained by their varying abilities to learn and adapt to crises and economic change than by identifying a particular development path shaped by the coupling of a particular organization of production with its corresponding MSR.

Finally, regulation theory down plays (although it does not overlook) the political nature of institutional networks. Power is considered to be predominately a function of class relations. Although class relations may be an integral component of political conflict, neither issues of power nor conflict are reducible solely to class. Rather, within institutional networks, conflict is demarcated by the internal tensions between maintaining the collective benefits of the

network and each organization's jockeying for best position and the external power relations between various types of networks.

III-B. Flexible Specialization

Through careful study of alternative development models found in Italy, Germany, and Japan, Piore and Sabel (1984) introduced a new¹⁷ and challenging concept to the debate on regional development; flexible specialization. Whereas the regulation school presents a meta-theory of global change, flexible specialization is a theory of industrial efficiency; a new technological paradigm challenging the accepted model of industrial organization (mass production) in classic Kuhnian style. Within this paradigm, productive efficiency emerges from a broadly-skilled workforce using widely applicable technology which can produce a variety of semi-customized for differentiated, quality-driven markets; goods which can be quickly modified to meet changing demand. The model from which the theory was built was the industrial district¹⁸; hence flexible specialization provides a supportive framework for the localization thesis.

¹⁷ New, at least, to the english-speaking world. Some of these ideas were already well-developed in Italy through the works of Bagnasco (1977), Becattini (1979), and Fua' and Zacchia (1983).

¹⁸ Although the thesis is based on the dynamics of industrial districts, Piore and Sabel did also argue that flattened out corporations, or the tight producer-subcontracting networks found in Japan were alternative faces of flexible specialization.

Industrial districts generally arise around traditional, labour-intensive manufacturing sectors, such as textiles, ceramics or furniture, because the production process of these sectors easily subdivides into multiple phases which permits small firms to specialize in a single phase of production (Scarpitti, 1991a). This specialization allows the system as a whole to invest in new technologies, physically placed in several small firms, that are widely applicable to different products and processes. The territorial concentration of these specialized firms, often several thousand of them within the same community, fosters extensive subcontracting networks which horizontally integrate the various phases of production process, allowing these small firms to successfully follow a just-in-time small-batch work strategy that supports the production of a wide variety of differentiated goods. Because they adapt easily to changes in demand, this system is flexible which is the competitive advantage behind their success (Brusco, 1982, p.179). Thus this productive organization has been termed flexible specialization.

Flexible specialization challenged the heretofore dominant model of economic organization--mass production. Neither mass production nor flexible specialization, however, is viewed as intrinsically better than the other. Instead, which is more efficient depends on the more general institutional context both at the level of the firm and locality and the national and international economy (Hirst and Zeitlin, 1991, p.3). In other words, efficiency is not the outcome of the productive organization but of the

institutional context in which that productive organization is placed. Therefore, institutional variation encourages a diversity of outcomes which explains why mass-production and flexible specialization systems differ between, and co-exist within, the major industrialized states. Thus, no particular industrial structure was inevitable but contingent on choices and historical influences.

Although flexible specialization has gained general acceptance as a viable alternative to mass production¹⁹ (Storper, 1994a), its overemphasis on localism has made it particularly vulnerable to criticism. Its heavy focus on industrial districts now seems like hopeful optimism, based more on one country's experience (Italy), rather than general international trends. The specific cultural and historical factors surrounding the districts, the Italian legal system which supported micro-firms but arguably hindered their expansion, the limited range of industrial sectors affected, and the growing international trends toward integration, alliance creation and transnational networking of large (and increasingly more powerful and more centralized) corporations all call into question the reproducibility of industrial districts in other areas. The rediscovery of place and locally articulated economies, as suggested by this industrial district-based thesis, will be of value in only a limited number of localities; those which already possess the prerequisite basic structures (Amin, 1994). Furthermore, many

¹⁹ Taking into account, of course, multiple ways of organizing and defining these concepts, not the more narrow categories established by Piore and Sabel (see III-D below).

Italian districts are undergoing serious restructuring, as an increase in mergers and acquisitions, minority shareholdings, contractual agreements, and joint ventures are creating larger, better resourced and more powerful firms and altering the relations of power between companies (Bianchi and Gualtieri, 1990).

Hence, it is not localness that matters but how the locality is inserted into the global, and the ability of institutions to manage this tense, often hostile relationship. Other local areas, especially urban areas such as London or Turin, have also seen a renaissance of their economic fortunes as a result of their insertion into global networks, rather than from their spatial closure (Amin and Malmberg, 1994). Local success stories are not limited to flexible specialization, nor are seemingly networked localities always economically dynamic. Flexible specialization, although important, is still only able to explain the success of certain regions, not present a general case for regional success.

Although these criticisms are serious ones, the flexible specialization thesis has made some significant contributions to our understanding of local development. Although they were perhaps too localist in outlook, it would also be wrong to deny that something is afoot in the evolution of global capitalism that has clear regional and local implications--the debate itself has spread throughout disciplines and has

reached the highest institutional level²⁰ (Storper, 1994a). Equally, their identification of alternative development trajectories which acknowledged the vitality of small firms and their placing of market forces in a socio-political context in a non-ideological way have stood old conceptions of development on their head.

Finally, they identified, in a tangible way, the actual contribution made by local institutional networks to economic performance. On one hand, institutional networks provide an important range of social and business services which support these flexible, decentralized structures (now broadly-defined). Institutional networks are particularly adept at integrating the resources and competences dispersed throughout the community allowing for the tailorization of a wide range of public services which support business growth, meet training needs, and stimulate technological transfer, for all firms but especially for small firms, which rarely have the internal capacity to develop these skills and services for themselves. On the other hand, and working on a more abstract level, their focus on the activities of local institutional networks can broaden our understanding of economic governance and the local political activity which support successful economies. Hirst and Zeitlin (1991) explain:

Politics in this sense is broader than the policies of public agencies; it involves the creation of a regional or sectoral 'public sphere' in which firms, labour interests, officials and politicians can interact and co-operate. Such a 'public sphere' is essential if 'co-

²⁰ For example, the proposals by the UK Labour party on devolution, and the creation of the Committee of Regions in the EU.

operation and competition are to be constructively balanced in the interaction of firms, and if co-ordination and conflict are to be constructively balanced in the relationship of management and labour. These balances are crucial if economic fluctuations and technical changes are to be handled effectively, if continuity and innovation are to be given their respective roles (pp. 44-45).

Piore and Sabel's conceptualization of institutional networks as both service providers and vital components of economic governance is an important contribution for our understanding of regional development in a changing world economy. However, it did not go far enough--it did not attempt to distinguish dynamic networks from non-dynamic networks which appear to be both flexible and specialized (Storper, 1994a). Equally, how can we explain regions which were flexibly specialized but have since disintegrated?²¹ In other words, Piore and Sabel failed to recognize, that networked or not, local or not, not all institutions are able to learn and adapt to changing conditions. Paradoxically and significantly, those institutions which once supported the local economy, may, under different circumstances, serve to hinder its growth²². In other words, not all institutional networks are the same.

Additionally, Piore and Sabel also underplay the political aspect of networks. At a superficial level, they seem to suggest that the extensive support provided to local

²¹See, for example, Glassmeir (1994) and Grabher (1993) for good examples of districts or networked economies in Switzerland and Germany which are struggling to readjust and have been impeded from doing so by their once supportive local institutions.

²²For an example, see Grabher (1993).

businesses, much of it provided by the public sector and hence emerges from local policy processes, always meets local needs at all times. Rather, the support which is generated from institutional networks is the product of both learning and interinstitutional bargaining, hence may reflect the needs of the more powerful. Thus, since power is integral to networked relations and policy outcomes, institutional networks alone cannot explain the seemingly perfect fit between local policy and local needs; we need a better understanding of learning (how policy and institutional relations adapt to changing conditions) and power (to understand why in the dynamic regions, policy may be directed to meet general needs, rather than those of just the powerful).

III-C: The Milieu or Innovative Environment

The milieu or innovative environment approach emerged from work done by the GREMI group (Groupement European des Mileux Innovateurs), which assesses the impact of high technology and technological innovation on local and regional development (Aydalot and Keeble 1988, Perrin, 1988, Maillat and Vasserot, 1988). In particular, these scholars are concerned with the source of innovation and how innovative behaviour can be maintained over the long term.

The milieu refers to the general environmental context in which innovation takes place; hence acknowledging the embeddedness of economic activities within socio-political processes. More specifically, a milieu, which provides a

nursery for innovative activity, comprises:

The historical evolution and characteristics of particular areas, their social and economic organisation, their collective behaviour, the degree of consensus which characterizes local society and economy, these are the major components of innovative behaviour. Taking the local environment as the starting point for the analysis of the spatial impact of new technologies focuses attention on local industrial networks and linkages, on the internal capacity of the environment to generate industrial development (Aydalot and Keeble, 1988, pp.9-10).

Since innovation is a collective, social phenomenon, then the primary source of innovation is the local environment rather than the firm. Once an innovative environment is constructed, it maintains the continual innovation that firms require to compete successfully. The concept of a milieu clearly resonates with Piore and Sabel's notion of an industrial district as an institutional context. Unlike Piore and Sable, however, multiple types of innovative environments have been identified including those which could be classified as dysfunctional (See Aydalot, 1988 and Perrin, 1988).

The policy implications of this work are two-fold. On one hand, the revival of regions in decline depends on their ability to assimilate and use new technologies (Maillat and Vasserot, 1988). On the other hand, policy should attempt to combine knowledge and resources available in the environment to stimulate functional synergies amongst the actors (Perrin, 1988). In other words, policy should promote institutional networks among firms and between public and private actors in a way that enhances the overall knowledge basis of the region.

The most notable contribution of this research has been only partially articulated by these scholars. By recognizing

that the local environment shapes how knowledge and creativity are generated, transmitted and interpreted, suggests that learning--how institutions learn and adapt--is a key component of development.

The problem with this work lies primarily in its circularity (Storper, 1994a). While innovation is the result of a milieu, a milieu is also the result of innovation and innovative practices. When and under what conditions do innovations and innovative practices actually become a milieu? A secondary problem emerges from their focus on high technology. On one hand, there is no common definition of high technology. On the other hand, does this mean milieus do not form in so-called low technology industry? How then can we explain the Italian industrial districts which clearly represent innovative milieus but most of them centre on low-technology sectors such as textiles, shoes, and furniture. If, as I indicated above, the important lessons to be gleaned from the study of the milieu is that institutions learn, the focus on high technology as a key stimulus of innovation (especially since it cannot be adequately defined) sets an arbitrary and unnecessary limit to the interpretation of the results and an application of this framework. Finally, political processes and the power component within network relations are ignored in this approach. The implicit suggestion is that the milieu should be reflected in the political processes as well, but how and in what way? The focus on the local environment rather than the firm suggests that politics and policy support must matter, but, aside from the odd suggestion, their insights

stop there.

Summing up this section thus far, all three approaches have stressed the importance of the institutional context as an intermediate form of economic governance and have identified networks as the main feature of the institutional architecture, especially for the governance of emerging new organizations of production. None of these theories, however, have offered a complete explanation as to how institutions actually manage the ongoing issues of industrial adjustment or, perhaps more importantly, why, in times of economic crises and structural change which threaten institutional arrangements, some regions and localities adapt better than others? These questions are best addressed by our final approach, the theory of a learning economy. Furthermore, none have an elaborated notion of power and conflict management within institutional networks. Learning and power may conflict at times, especially during periods of industrial restructuring when change threatens the underlying power structures. Power in networks will be discussed in chapter 2.

III-D. The Learning Economy

All these renowned scholars have insisted that institutional networks are integral components of dynamic economies. Why have I challenged them, insisting that although networks are important, learning is more important? This question is best addressed through an example.

Networks, especially dense networks, can produce

institutional 'lock in', a condition which Grabher (1993) recognized as responsible for stunting the momentum of the Ruhr Valley--a once dynamic coal and steel region. Lock-in occurs when strong, cohesive ties among the core actors, a well-developed common language and systematically-established rules of the game trap the participants into a certain world view (through its constant reproduction and reinforcement) that shapes their perceptions of innovation opportunities, technological applications and appropriate support structures. In the case of the Ruhr, as the coal and steel industry declined, both the firms and the local institutions responded by doing more of what they usually do rather than moving toward new technologies and new processes. Hence, lock-in affected both interfirm relations and the equally strong, equally cohesive institutional networks that supported them. Thus, "...the symbiotic relations between the politico-administrative system and industry obstructed a timely reorganization of the Ruhr and paralysed political innovation (Grabher, 1993, p. 264)."

Although strong institutional networks once sustained the economy of the Ruhr, they were thwarting development under new structural conditions.²³ Strong network ties inhibited the development of looser, wider links with other institutions that could offer important opportunities for the exchange of information and experiences. Since weaker network ties cross

²³ The story, however, does not end here. The Ruhr Valley appears to be remoulding itself by enlarging the networks and expanding its productive mandate farther afield into new technologies. We must watch it unfold before solid conclusions can be made.

group and issue boundaries, they cross-fertilize ideas and innovations, and coordinate among various needs.

The example of the Ruhr valley demonstrates that the focus on networks alone is insufficient for understanding economic development, especially in areas managing industrial restructuring. Rather, institutions must be adaptable rather than adapted (ibid.). The strong ties of the Ruhr valley networks resulted from, what was at the time, an appropriate adaptation to economic and social conditions. However, that structure did not prove adaptable when change occurred. For networks to be adaptable they must be able to learn; to change with changing conditions.

Ideas concerning the learning economy have been put forth by Storper (1994a, 1994b), Lundvall (1994), and Sabel (1993). This approach can be summed up as: within an economy, "knowledge²⁴ is the most strategic resource and learning the most important process" (Lundvall, 1994, p.1). Trust, dialogue and communication--key components of learning and hence of long-term economic performance--are empowered (or inhibited) by the sociopolitical processes that contextualize human behaviour (ibid.).

Storper (1994b) outlines the key components of the

²⁴ Knowledge refers primarily to tacit knowledge, which is learned only by experience, rather than to the standardized and codified variety that is easily transferable. Tacit knowledge can be understood as "We know more than we can tell", (DG XIII, 1993, p.4) hence can only be diffused through personal exchange and mobility. Learning provides a competitive edge to a company or an economy by its ability to generate (at least temporarily) non-substitutable inputs--especially labour and human relation (Storper, 1994b).

learning economy²⁵. First, the notion of learning has certain implications for the organization of productive systems and regional economies. On one hand, since learning may often require that changes be made, then organizations must be able to move resources around fairly easily--hence they must be flexible if they are to exploit the benefits of learning. On the other hand, some aspects of the learning process require that some participants are highly specialized in certain areas or tasks. This combination of flexibility and specialization²⁶ is best achieved in a networked organization and thus learning economies and learning institutions tend to develop this architecture. There is no common network form. Rather how the network is shaped depends on the system of production, the industry, and the design of national-subnational institutions. Clearly, this resonates with the conclusions of the other three approaches.

Looking deeper into the learning process, when multiple organizations are involved in combined learning (subnational authorities, business and trade associations, universities and other education or research related agencies, firms, and so on), the ability to share tacit knowledge and understanding, which is not measurable and only partially communicable, requires that the interpretation is mutually consistent. In other words, knowledge is relational and understanding cannot be completely disassociated from the relationships in which it

²⁵ Hence, this section paraphrases from Storper (1994b).

²⁶ Note that this notion of flexible specialization is similar too, although much broader than, that posed by Piore and Sabel.

is shared. Such relationships must be kept up over time and be able to weather personnel changes, organizational restructuring, the coming in of new agents and other potentially disruptive occurrences which could hinder the reproducibility of consensus and shared perceptions²⁷; hence the importance of norms, conventions, and rules of the game which provide the glue that cements these relations. These conventions emerge from "rounds of action and interaction among...agents, leading to taken-for-granted regularities in what they expect from each other and what they do" (Storper, 1994b, p.20b). As network relations develop, they become assets in and of themselves. The learning economy, however, is not based on institutional networks *per se* but on those with an inbuilt capacity to learn and adapt to changing circumstances.

The learning economy also has specific implications for public policy. In particular:

The challenge to policy is thus to establish and maintain not one, but two economic dynamics: the technological trajectory i.e. the mastery of specific spaces in the economy characterized by technological spillovers and complementarities [stimulating technological learning], and the trajectory of conventions, which link and re-link agents to each other in a coordinated fashion [maintaining institutional learning].(p. 21)

At the local level, policy should encourage the continuous upgrading of important sectors as well as trying to distinguish local industry through indigenous forms of

²⁷ Shared perceptions is not equivalent to either shared opinions or shared preferences. Rather, it refers to an understanding of the rules of the game governing transactions and a common language with which disagreements, conflicts, and diverse desires can be managed.

learning for differentiation. Hence local policy and policy processes must learn and adapt as well.

Although the learning approach provides the most robust method for assessing the ability of a locality to adapt to economic change, it is not without flaws. Like the milieu school, this approach is also guilty of a certain circularity of argument; learning economies have learning institutions thus you need learning institutions to have learning economies. However, there are ways of circumventing this problem. Storper (1994b) notes:

The circular relation between public institutions and the institutionalized learning economy requires that the parties to public institutions somehow be convinced of the utility of having a public institution help in supporting the conventions and relations which make up the institutionalized learning economy. That is they must share a convention of the utility of the public institution in some specific domain before it can get started. Talk between the parties may be one approach (emphasis in original, pp. 28-29).

Talk refers to dialogue. Not the simple transfer of information but a real attempt to achieve mutual understanding. Talk is ultimately the necessary prelude to confidence or trust; the real mechanisms which allow for the development of precedents, conventions and collective activity. Although financial incentives may function in the short term to get actors to the table, the lifespan of talk would then be equivalent to the life of the incentive if no common understanding and conventions were concurrently established.

As well as the circularity problem, the learning approach must cope with certain tensions that emerge from two important

paradoxes--the global-local nexus and the learning/monitoring dichotomy. First, the context specificity required for successful network relations strengthens the trend toward the localization of activity while, simultaneously, the globalization (and bureaucratization) of capital leads to the diffusion of globally common (rather than locally-derived) rules of behaviour. The outcome of these competing tensions is a patchwork of localization and globalization. Although recognizing this paradox presents certain analytical difficulties, it offers a more accurate conceptualization of the global/local relationship (and its significance for development) than the other three approaches.

Second, learning often frustrates the stability of relations needed for the proper monitoring of common contracts, agreements, projects and so on (Sabel, 1993). Change subverts the established rules of the game. Nevertheless, if networks are to be development-sustaining, then they must be able to continually revise their activities and allotted duties in accordance with both changing circumstances and the understanding that evolves from shared experiences. Sabel (1993) notes that the Japanese system has found ways out of this quagmire:

the agreed rules do not fix the parties' actions but rather define how they will act to revise their joint goals (and their standards for evaluating goals), then there can be no conventional monitoring. Because the behaviour of one party can influence the goals of the others, it is meaningless for either to define, let alone, measure, a partner's performance in reference to an anterior agreement (p. 21).

In other words, learning requires discursive and reflexive institutions. Through dialogue and participation,

agents learn to redefine themselves and their goals within shared boundaries (Phillips, 1994). In particular, institutions must fuse two types of discourse (Sabel, 1993): 1) the discussion of what to do with the dialogue regarding what is being done; and 2) the debate concerning standards for apportioning gains and losses and apportionment generally. Using these mechanisms, dialogue becomes an integral tool for defining and redefining common goals, ends, objectives and ultimately identities. These same principles can be used in both smaller and larger collaborative ventures; thus serving as an important way of moving between them. Networks, as conduits of regional/local rules and practices, must serve to pass on these type of norms and build a consensus surrounding development goals which include the recognition of these invisible factors.

The learning economy approach concentrates primarily on how firms learn to innovate and only secondarily on the institutional support that maintains that innovation. This thesis, alternatively, isolates out the role of the institutional architecture with a focus on the policies and services used to support industrial restructuring. If we are to focus on the institutional learning capacities of the political processes, than the learning economy approach must be criticized for its underplaying of the role of power and coalition building that marks the activities of networks; especially in the policy process. Learning in this environment is a function of past policy attempts (and the involved actor's interpretation of their successes and failures), the

capacities of institutions to design new activities, and on the changing ideas and shifting alliances and balance of powers among the actors (Skocpol and Finegold, 1990). Learning, in this thesis, then focuses on the policy support process and refers to two separate but interdependent phenomena: 1) policy learning whereby policy and support services are adapted to meet changing circumstances; and 2) institutional learning where actors learn to adapt their relationships to the changing circumstances and a changing balance of power that are fostered during periods of economic and social transformation.

This chapter has demonstrated that institutional networks are an important factor shaping a locality's ability to respond to economic and structural change. I have suggested that those networks best able to manage those changes are those with a learning capacity. What are the characteristics of learning networks? How do networks balance the tensions between the needs of learning and the imperatives of political haggling, particular during periods of transformation? How can we measure learning? Chapter two addresses these issues.

2. MAPPING INSTITUTIONAL NETWORKS AND MEASURING INSTITUTIONAL LEARNING: A RESEARCH STRATEGY

INTRODUCTION

Relying primarily on the literature of regional and local economic development, chapter one established that, under certain conditions, local institutions can have an important impact on local economic development generally, and industrial restructuring in particular. Specifically, institutional networks were identified as a pivotal component of dynamic local economic governance which implicitly recognizes that specialized resources are increasingly dispersed among various institutional sectors. To effectively govern the economy, these institutional resources must be coordinated and integrated through regular processes of exchange. The way these resources are distributed, and how and the degree to which, they are brought together will vary across localities. Furthermore, as emphasized in chapter one, the integrating of these resources through institutional networks is inherently a political process, and are thus stamped by the peculiarities of the local political system.

To be able to identify institutional networks and assess their learning capacity, we must first have a theoretical

understanding of the different types of networks which can form and how they emerge, endure and change. This is discussed in section I, which will also establish the main research hypothesis of the thesis. Section II discusses structural constraints on local institutional capacity that emerge from the national and international environment. A number of secondary hypotheses will be elaborated. Finally, section III comprises the methodological section of this thesis; designing a research strategy for investigating the relationship between local institutions and industrial restructuring.

I. UNDERSTANDING NETWORKS: THE ROLE OF POWER AND EXCHANGE

A theory of networks must address several important questions: 1) what are networks, how do they differ, and which are most effective for promoting learning and economic development? 2) what is power in networks? and 3) how and why do different network structures emerge, endure and change? Each will be addressed in turn.

I-A. Categorizing Networks

Networks consist of all institutions that are linked around a certain relationship, territory or policy domain, and thus constitute all interlinked institutions within defined boundaries (Aldrich and Whetten, 1981). Networks are assumed to be greater than the sum of their links, and this structure can either constrain or facilitate the activities of the

involved organizations. "The patterning of linkages can be used to account for some aspects of behaviour of those involved" (Mitchell, 1969 cited in Knoke, 1990, p.9).²⁸ If networks are differentiated by their interorganizational relationships, then different networks will be structurally different. Therefore, the study of networks is the study of structures (Dowding, 1994). There are three structural characteristics, that are not mutually exclusive, which can be used to categorize networks: territorial scope, dominant actors (Saward, 1992), and density or thickness.

Leonardi (1995) distinguishes three types of territorial networks: 1) intraregional which is among local and regional actors; 2) interregional which are those networks between actors within a national territory; and 3) transregional which are between actors in different countries. Intraregional networks provide the foundation of learning networks because they integrate all area resources, especially knowledge. Learning networks must first have a comprehensive understanding of their locality before they can tap into, interpret and integrate knowledge from other sources. Once strong intraregional networks are firmly in place, interregional networks can then be important for accessing national funding sources, pooling resources for national and European lobbying efforts, and information sharing about common problems and potential solutions. Transregional

²⁸ Mitchell, J. Clyde, 1969. *Social Networks in Urban Situations: Analysis of Personal Relationships in Central African Towns*. Manchester, England: Institute for Social Research of University of Zambia.

networks provides a similar function but at the European level.

Networks can also be categorized by the dominant actors; governmental, sectoral, or functional²⁹. Dominant actors are assumed to hold the key resources and stronger bargaining positions. In a governmental network, the key actors are government agencies. These networks tend to take a vertical structure which has particular consequences for network relations (See section II). Sectoral networks emerge around sectoral actors such as an industry, a service, or a profession. Finally, functional networks comprise a combination of governmental and sectoral actors. Sectoral and functional networks will tend to be horizontally integrated rather than vertically structured (section II). Functional networks represent the essential support structure for development-sustaining activity because they integrate the multiple types of resources required for successful development. Table 2.1 below summarizes these two categories.

Table 2.1
Dominant Actor and Territorial Networks

TERRITORY	Intraregional	Interregional	Transregional
DOMINANT ACTOR			
Governmental	Intraregional Governmental	Interregional Governmental	Transregional Governmental
Sectoral	Intraregional Sectoral	Interregional Sectoral	Transregional Sectoral
Functional	Intraregional Functional	Interregional Functional	Transregional Functional

²⁹ This is a revision of Leonardi (1995).

The discussion thus far suggests that the most effective institutional networks are those which centre on intraregional functional networks. Not only do these networks integrate all (or at least most) area resources but provide a central mechanism for linking into and integrating resources from other external networks, and providing an important conduit for new information, innovative policy responses, new trading partners, and additional resources. If these locally-based networks are not first in place, than non-local actors may have proportionately greater control on the direction that development takes irrespective of the needs and preferences of the community.

The last, and arguably most important, structural characteristic of networks is their density or thickness. Institutional thickness refers to "the combination of factors including inter-institutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms" (Amin and Thrift, 1994a, p.15). In practical terms, thickness refers to the number of institutions and the process by which this range of institutions are networked. A thick network contains a multiplicity of networked institutions at various levels of interaction (local, regional, national, European, international) that share a common understanding of belonging to a collective enterprise with well-defined established structures of power and coalition building (*ibid.*). Local institutional density is shaped by the way in which resources are distributed both territorially and functionally and how

those resources are integrated. Hence, they are historically and geographically contingent on the way resources have been structurally allocated and on the particular political processes that combine those resources in the specific locality in question. Hence, although thickness refers to a range of intersecting networks, it is not possible without intraregional functional networks to act as core and conduit.

Density, however, is not simply about the generation of more and varied institutions, because that alone is insufficient to cope with economic problems (Grabher, 1993). To promote real improvement, a variety of institutions, working in different areas, must be linked together. Furthermore, these institutions must also be redundant, which is the generation of more connectivity and information exchange than is needed at any one point in time. Redundancy leads to the creation of multiple layers of support; for example supplying all categories of firms with innovative capacity and thus guaranteeing that fewer firms fall through the safety nets (Cooke and Morgan, 1993).

Thickness also refers to the dispersion of multiple leadership roles within both political and economic activities. During periods of change, such as industrial restructuring, institutional relationships may come under threat which can destabilize the network, while, simultaneously, to effectively moderate the local repercussions of those changes, the networks may have to respond to the crisis collectively. To moderate the tensions between institutional learning relations required to adapt

both policy and institutional relationships to changing conditions and the restructuring of power relations that those changes may engender requires effective leadership. Effective local leadership must (Bennett, et. al., 1994, pp.292-3): 1) satisfy all groups who have a stake in what is occurring; 2) create a strategic vision and disseminate it convincingly to all those involved; 3) allow space for independent actions of those involved that adhere to the general strategic vision. Defined in this way, leadership, hence thickness, requires the decentralization of power and responsibility and a high level of involvement of the participants.

Institutional thickness, because it provides (in the best case scenario) institutional persistence, the continual deepening of shared tacit and standard knowledge, flexibility and adaptability, innovative capacity, common bonds of trust and reciprocity, and, more rarely, a sense of common identity, is the foundation of a learning economy (Amin and Thrift, 1994a). In other words, thick institutional networks are learning institutional networks. Which leads us to the major hypothesis underpinning this thesis:

Hypothesis 1: Localities better able to adapt to structural adjustment possess dense, intraregional functional institutional networks. These networks will not only provide an effective range of local services to the industry, but will be able to integrate resources from national and international sources as well. More precisely, these networks will have a learning capacity which allows them to adapt both their institutional relations and their policy/service output in response to the political and economic changes engendered by the restructuring process.

There is some debate, however, as to whether the linkages

between institutions within networks should be weak or strong. The strength of linkages is a function of the number of ties any two institutions share. The stronger the tie, the greater the number of agents to which they will both be linked (Granovetter, 1973). Characteristically, "Weak ties are more likely to link members of different small groups than are strong ones, which tend to be concentrated within particular groups" (ibid., p. 1376, emphasis in original). In particular, institutional lock-in discussed in chapter one is often used to show the dangers of strong ties. Similarly, corruption or malfeasance can be a product of strong ties (ibid.). For example, the illegal Wall Street insider trading scams were only possible because they were pursued by a very small, tightly-bound network of bond traders.

This thesis assumes that neither strong nor loose ties are intrinsically better than the other. Rather, what is required is some combination of both. As strong ties encourage the growth of trust, innovation and the development of collective rather than fragmented modes of representation, they make an important contribution to learning and development. In particular, strong ties allow for the deepening of knowledge among actors regarding common processes. However, the danger of both cognitive lock-in and malfeasance are very real and thus these types of ties require counterbalancing with equally important wider, weaker links. The further building of wider but looser ties can be an important way for gaining access to new knowledge and the cross-fertilization of ideas. Hence, weak ties encourage the

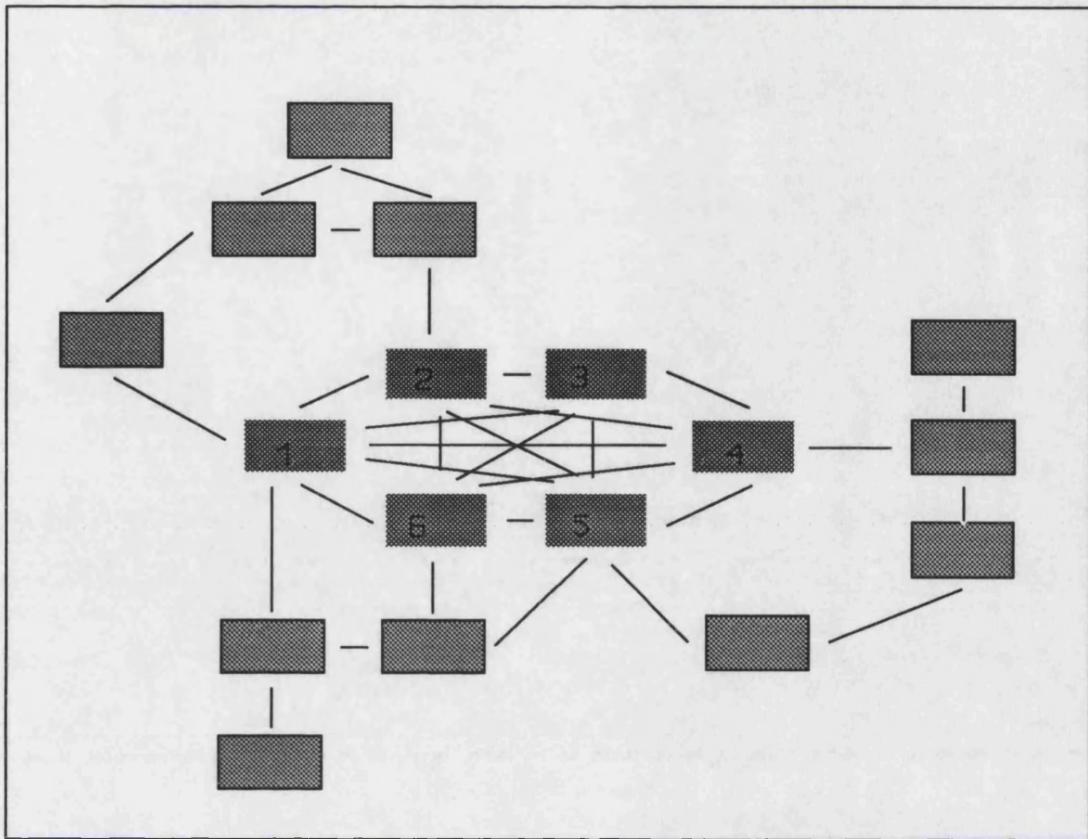


Figure 2.1: A Theoretical Model of Institutional Thickness

breadth of knowledge--allowing a locality to tap into a wider body of knowledge than permitted simply by strong ties. A diagram of an institutionally thick network structure, comprised of strong and loose ties, is demonstrated in Figure 1. Strong ties connect the central intraregional functional network (actors 1-6). This network, in turn, is connected through looser ties to a range of other local and non-local actors; bringing a wider range of ideas and resources which are then interpreted and adapted to local conditions through the central local network. Clearly, within the network, an actor's power or position is strengthened by his/her ability to tap into external as well as internal resources. Actor three, for example, has a more limited resource base than one

or five which serve as important conduits into other policy domains. Hence, power is an important component for understanding how different networks function.

I-B. Power in Networks

Within networks, what is power and how is it wielded? Metcalfe (1981) suggests a definition of power that is well-suited to a study of networks. Power "is the ability to attain higher levels of collective performance" (p.504).³⁰ An actor has four ways to exercise power to encourage collective performance: persuasion, threats, reward or a 'throffer' which is some combination of threats and rewards (Dowding, 1991, p.68).³¹ All these instruments of power operate within a bargaining context. It follows, therefore, that who is powerful emerges most clearly from the results of a bargaining and negotiation process among actors. Thus power to increase collective performance is about bargaining. Each actor has a number of potential bargaining resources at her disposal including: information provision, legitimate authority, unconditional incentives (where an individual must pay the

³⁰ The concept of power is a widely-debated issue within political science. The standard definition of power is getting another to do something they would not have otherwise done. I have chosen an alternative definition because it emphasizes the problems of collective action. As this thesis is primarily concerned with how actors manage to work together to achieve common aims, this is a more suitable definition.

³¹ In cases where none of these techniques have been used, and actors were able to act collectively based on similar preferences, then power was not exercised and the actors who benefitted were lucky (Dowding, 1991).

price or reap the benefit whether or not she does what the other wants, i.e. the law), conditional incentives (where an individual's action invokes the other actor's promised response, either reward or punishment), (Harsanyi, 1969 discussed in Dowding, 1991, p. 70-72³²) stubbornness, reputation, and overcoming problems of collective action where a group cannot mobilize itself to act, (ibid., pp. 145-146) and knowledge.

Within networks that surround economic development issues, control over or access to sources of knowledge and information is a particularly important dimension of power for two reasons. On one hand, since economic development can be interpreted to be a public good and of general interest to most participants, the most effective political tool is persuasion; enticing rather than coercing an actor's contribution (Peterson, 1981). Ergo, since persuasion allows an actor to enter voluntarily into collective action, it is the most powerful tool to achieve collective performance. Information and knowledge are the most effective resources for persuasion; illustrating why actor five is more powerful than actor 3 (figure 2.1) because of her greater access to knowledge and information. On the other hand, the diffusion of new ideas and new information can lead to new patterns of behaviour (Haas, 1992). Hence, actors have clear incentives to

³² Harsanyi, J.C. (1969) "Measurement of Social Power, Opportunity Costs, and the Theory of Two-person Bargaining Games," in Bell, P., Edwards, D.V. and Wagner, R.H. (eds.) (1969) Political Power: A Reader, London: Collier Macmillan, pp. 226-38.

increase their access to these resources, especially as it can influence others to accept their interpretation of common problems and solutions.

Power relations within networks centre on, although they are not reducible to, the process of exchange (Marin, 1990). Networks can form over a variety of exchanges: money, information, authority, and sentiment among others. Exchange refers to "a relational process where possibilities for action, linked to the possession of mutually valued resources, are exchanged between complex organizations" (Parri, 1989, p.200), hence obtaining collective action. Exchange occurs at both a functional level, between state agencies and private actors, and at a territorial level between levels of government. For example, a state agency allows the influence of another organization on the policy process in exchange for that organization's resources. Both actors are offering something of value in a bargaining framework. Exchange, like power, is grounded in a bargaining and negotiation framework. In fact, "*the process of negotiation is itself a vital part of the institution-building process*" (Amin and Thrift, 1994b, p. 15, emphasis in original) within networks.

Negotiation is also a fundamental part of coalition building. Shifting coalitions influence which policies are pursued, which lessons are learnt, and how those lessons are interpreted. When power shifts within a coalition, what happens to the functioning of institutional networks?

I-C. How Networks Emerge, Endure and Change

This system of exchange has been labelled a power dependence framework (Rhodes, 1985, 1988, Rhodes and Marsh, 1992). In this framework, actors and organizations spend resources to achieve objectives. However, no organization is completely autonomous but depends, to varying degrees, on the resources exchanged with other organizations.³³ An organization's social position, strategies and objectives will determine which resources will be exchanged and with whom. The result of these exchanges is asymmetrical interdependency amongst the involved organizations. Different patterns of resource exchanges and asymmetries will emerge across sectors and localities, which influence the type of network structures that develop (if they develop at all).

Within the power-dependence framework, these networks are used to interpret different structures of interest intermediation between government and organized interests in particular policy areas (Rhodes, 1988, Rhodes and Marsh, 1992, Peterson, 1993). However, within the local economic development literature, as discussed in chapter one, networks are more complex; they do not refer only to interest intermediation (although that is a crucial function) but concern an entire milieu of relations and activities that are not ordinarily covered by a study of political decision-

³³ This loss of some degree of autonomy signals that the process of political exchange should not be understood in the same light as exchange within the free market model. Instead, exchange represents an institutional design that helps competitive, functionally interdependent agents manage the uncertainties of complex, mutually contingent strategic interactions and to collectively provide a variety of public goods in multiple policy areas (Marin, 1990).

making. For example, these networks are necessary for coordinating public sector policies and private sector initiatives for the good of the community as a whole; effectively putting independent private sector initiatives into the public sphere.

Although exchange may be a rationally-driven process, rational action is shaped by the local context. Exchange is not separate from an organization's (and its home location's) own self-definition. History and geography shape the way resources have been distributed. Resource choices have been conditioned by local norms, values, conventions, and rules of behaviour. In fact, mutually reinforcing self-perceptions may distort actors' collective judgements concerning the value of certain resources. Thus they may not enter into exchange relations because they do not recognize certain resources as useful, not because those resources were not readily available. The differing merit attributed to the participation of trade unions across regions is an example of how exchange relations diverge.

Differing distributions of resources as well as various socially-constructed exchange choices explains why multiple network structures may emerge between policy areas within a locality or between localities in the same policy areas. Who has the resources (between and within the public and private sectors) and how these resources are distributed territorially shape the territorial scope and dominant actors within the network. For example, if resources are centralized in national actors as is often the case in highly unitary states, than

firms, workers and their representatives are more likely to exchange with national agencies than with their local counterparts. Network density among actors is patterned by the degree to which resources are concentrated or dispersed among many actors and the real or perceived importance of those resources for the daily functioning of the actors. As conditions change, the value attributed to different resources may also change. Where exchanges are multiple, regular, varied, considered valuable, and there are few alternative suppliers the network will be very thick and the actors highly interdependent³⁴. Alternatively, where exchanges are singular, more ad hoc, of limited value to the organization's objectives, and there are multiple suppliers, the network will be thin rather than thick and thus the agents more autonomous.

Once established on the basis of exchange, networks will endure over the long term; they are not short-term events intended to reap quick gains.³⁵ Three factors can cause networks to change. First, network reorganization can be stimulated by changes in external conditions and system

³⁴ Small dense networks can also be established around a single dominant actor who has such a disproportionate amount of resources that this actor can pick and choose her partners. For example, the state has been known to play this role in situations of authoritarian corporatism (Schmitter, 1974).

³⁵ Some scholars argue instead that networks can be established around single projects (See Bennett and Krebs, 1994). The point of reference, however, is not the network but the project. Thus exchange in this situation is to meet a common short-term collective goal (the project) rather than to establish relations to meet and manage long-term strategies. While successful collective action among institutions may lead, fortuitously, to enduring networks and may be used as a specific strategy to do so, it does not necessarily lead to network creation.

parameters which result in the redistribution of power and resources internal and external to the network. These conditions include shifts in socioeconomic and political conditions, technological change, changes in governing coalitions (i.e. key elections), new policy and funding decisions, the impact of other subsystems, and personnel turnover.³⁶ Ironically, the success of specific networks or network subsets can encourage the formation of latent constituencies or collective action by others who have been harmed by the success of the network. This new activity can then force network change from the outside (Dowding, 1994). Network transformation can also result from internal strategy changes by network actors which deliberately or accidentally restructure network power relations. For example, a group may use its resources to try and organize new groups or mobilize latent supporters to increase its power position. Third, new ideas that emerge from the learning process can promote change because new policies or procedures may require a different range of resources. In all three cases, however, change is neither easy nor painless, as actors which have lost, will fight to maintain their position and influence.

Adapting our general understanding of network dynamics to this thesis, we can deduce that industrial restructuring, which represents a fundamental change in system parameters,

³⁶ Stable system parameters were introduced by Jenkins-Smith and Sabatier (1993) in their theory of advocacy coalitions. I have reapplied them here to the study of networks. Since they argue that advocacy coalitions can be determined through a network approach, I do not believe they would disagree with this application.

presents a threat to whatever institutional arrangements are in place in both the economy and the polity. The ability of an economy to adapt to these changes can be enhanced or hindered by the political response to these changes, as the case of the Ruhr discussed in chapter one so clearly demonstrates.

I have hypothesized that those localities with thick institutional networks will be better able to successfully weather the storm of economic restructuring because they are able to learn which entails the ability to adapt institutional arrangements and industrial support initiatives to meet these new systemic conditions. During a crisis, however, such as that brought on by industrial restructuring, fixed interests are challenged. While this can lead to certain organizations resisting change and the loss of power and security that change entails (which may hinder learning), it also opens, at least theoretically, an important window of opportunity for effective institutional restructuring, especially in areas that lack the appropriate institutional infrastructure, because entrenched interests may have been weakened. Building new institutions often first requires the weakening or eradicating of old institutions (Storper, 1994b). Hence, if a locality can use this window of opportunity to build up its institutional capacity, it too may be able to ride the storm out and put in place an institutional structure better able to provide effective local economic governance in a changing global economy.

The definition of learning as both institutional and policy adaption suggests a two-stage approach to the study of

institutional networks and industrial restructuring. The first stage is an investigation of national and international conditions which shape the local policy environment and the development local institutional capacity. Of particular importance, as suggested in chapter one, are the structure of the state and the organization of the economy. The second stage is to identify the local institutional architecture which has evolved and measure local learning capacity through an investigation of how policy and institutional relations have evolved.

Sections II and III correspond to this the two-pronged approach outlined above. In particular, section II assesses the structural constraints on local institutional capacity-building while section III then establishes the methodology for measuring network density and evaluating institutional learning capacity.

II. ASSESSING THE STRUCTURAL CONSTRAINTS ON LOCAL INSTITUTIONAL CAPACITY

Local institution building and institutional learning capacity are bounded and conditioned by national and international political and economic structures. Of particular importance are the constitutional design of the State, the structure of the economy, and more recently, the expansion of the European Union's (EU) political and regulatory activities. These factors set the parameters of local discretion, thus shaping a locality's potential to design and adapt both new policies and institutional relations to manage industrial

restructuring. The local policy process, hence the local learning process, is inseparable from (although not reducible to) these structural conditions. An analysis of institutions must first start with a discussion of structures and the degree to which they constrain the growth and capacity of local institutions in the area of local economic governance. Each will be examined in turn.

II-A. State Structure and Local Institutional Capacity

The analysis of state structure is intended to assess the capacity of local authorities. The institutional capacity of local authorities is shaped, on one hand, by the territorial or constitutional divisions of powers and responsibilities between levels of government and, on the other hand, by the relationship between elected representatives and administration officials.

The territorial division of powers within the state demarcates the resources and the scope for autonomous political action of subnational authorities and patterns the nature of relations among levels of government. Different territorial state structures will have a different impact on subnational political activities (Anderson, 1992). Thus, when we compare across countries, we are examining the effect of different distributions of power between tiers of government that result from the territorial structure.

In particular, how a higher tier of government defines both economic problems and solutions may circumscribe the

options of subnational authorities by limiting the boundaries of acceptable activities and circumscribing learning potential. Even subnational government's ability to forge cooperative networks can depend on the favourable attitude of central government³⁷ (*ibid.*). Compounding the natural asymmetry of these relations, higher levels of government remain vital sources for financial, legal, and other resources.

Within centralized states, there is less space for autonomous action on the part of subnational authorities and intergovernmental networks tend to take on a vertical character. This impedes local institutional capacity in two ways. First, vertical structures discourage the build up of trust required for effective cooperation between participants-levels of government in this case. Putnam, Leonardi and Nanetti (1993) stress:

A vertical network, no matter how dense and no matter how important to its participants, cannot sustain social trust and cooperation. Vertical flows of information are often less reliable than horizontal flows, in part because the subordinate husbands information as a hedge against exploitation. More important, sanctions that support norms of reciprocity against the threat of opportunism are less likely to be imposed upwards and less likely to be acceded to, if imposed (p. 174).

Consequently, networks which are completely vertical in character, whereby resources flow primarily in one direction, put stringent constraints on local resources and the scope for

³⁷ Similarly, vertical, hierarchically-structured relations between subnational business and trade associations and their peak organization can put comparable constraints on the ability of these actors to participate in regional collective strategies (Anderson, 1992).

independent policy activity. Second, although vertical networks can impose cooperation between the centre and its constituents, they discourage, if not block outright, independent horizontal cooperation among the various local actors (ibid.). Van de Ven (1975) notes:

[V]ertical patterns are usually highly structured by clearly defined contracts, charters, laws, administrative policies and procedures. They are usually bureaucratically organized with rational planning, specified goals, prescribed means, and clear authority and sanctioning patterns. As a result, horizontal integration, particularly at the local level, is difficult to achieve (cited in Aldrich and Whetten, 1981, p.389).³⁸

In particular, thickness requires that economic actors are represented by broad-based business and trade associations which can effectively engage in local political and regulatory activities. Area based groups are more likely to form if local authorities can act competently in the area of economic development and if local authorities are responsive to group activity (Peterson, 1981). Subnational authorities which are weaker and thus less responsive to the private sector will deter the creation of these local institutions, which are an integral part of institutional thickness.

Thus within centralized states, the hierarchical structure of government agencies can inhibit the growth of local institutional networks. The more local authorities depend on higher levels of government for resources, the more likely will development policy be dominated by intergovernmental rather than functional networks. This leads

³⁸ Van de Ven, Andrew H. (1975) 'Design for Evaluating Inter-Agency Networks Among Texas Early Childhood Organizations,' Working Paper, College of Business, Kent State University, p. 12.

to hypothesis 2:

Hypothesis 2: Local institutional networks and institutional learning capacity will be underdeveloped in centralized states. Conversely, they will be more likely in regionalized or federal states.

A secondary consideration for understanding the institutional capacity of public authorities concerns the capabilities of the political class---their skills, motivation and training, and the institutional relationships that develop between elected politicians and the officials in the public administration. Generally, the effectiveness of the policy process depends on the way functions are allocated between the two groups and the efficient functioning of the administration (Cassese and Torchia, 1993). The way power is shared between them affects the access of outside organizations into policy formation and thus, shapes how networks develop. Furthermore, how public officials are selected--whether professional or political criteria is used for appointments--can strongly influence their efficiency, their effectiveness, their motivation, and their openness to new ideas. When assessing the institutional capacity of local authorities, these factors must also be considered.

II-B. Industrial Structure and Local Institutional Capacity

The structure of the local industry (whether its comprised of small or large firms, whether its a diversified or a monocultural economy, whether firms are autonomous or branch plants taking direction from outside the area, whether they

are networked within the region or outside the region) influences the resources of economic actors and determines the boundedness³⁹ of the industry. Boundedness refers to the extent of correspondence between the local economy (the local labour market and the industrial structure) and the public administration. In other words, boundedness represents the degree to which the economy is decentralized. The more an industry is bounded, the greater the possibility that local action can be influential. In fact, empirical evidence suggests that economic centralization can undermine the policies and politics of subnational authorities (Mény and Wright, 1985).

Admittedly, the growing importance of global links and global decentralization for the competitiveness of firms and sectors and the spread factor of industries (the outproduction of components and ancillary services), seems to negate the idea of a truly bounded local economy. Additionally, a concentration of certain subcontracting firms, for example, may indeed be physically bounded within a particular locality but dependent on relations with firms located elsewhere. Hence we need a way to measure boundedness that can account for multiple types of interindustry relations and geographies, yet can distinguish types of structures which are more likely to respond to and/or be an active part of local governance activity.

³⁹ The relationship between boundedness and local institutional capacity was introduced by Bennett and McCoshan (1993). It will be adapted somewhat for the purposes of this thesis. See below.

I propose that economic boundedness or decentralization can be assessed in accordance with two criteria; 1) whether key economic decisions are taken endogenously (within the locality) or exogenously (outside the locality); and 2) the degree of hierarchy within interfirm relations and the extent of interdependence among firms which can be conceptualized as the industrial governance structure and subdivided into hierarchies (vertically-integrated, small firms dependent) and networks (horizontally-integrated, interdependent). Combining these determinants of boundedness, there are four general structural outcomes which are illustrated in table 2.2; core, core-ring (including the subset of branch plant economies), ring, and ring-core⁴⁰.

All core represents hierarchically-structured, vertically-integrated large firms with high internal economies of scale and scope but low external economies. Firms will have few local linkages and no necessary connection to territory⁴¹. Similarly, core-ring structures, where a lead firm retains a ring of dependent subcontractors vulnerable to the whims and needs of the core firms, represent centralized power configurations and are less responsive to local institutions.

⁴⁰ These four categories were borrowed from an article by Storper and Harrison (1989) which outlined a map of regional production systems. Their conceptualization was more sophisticated, identifying four input-output systems, which I have reclassified as the locus of decision-making, and four governance structures. We both have the same goals as the purpose is to identify the structure of production so that policy can be appropriately designed. My discussion of the four productive systems summarizes their argument.

⁴¹ There are, of course, exceptions to this rule. These are general categories and do not fit in all cases.

The hierarchical governance structure results in intense competition between subcontractors and a squeezing of their profit margins. The decision-making location of the core-ring can be endogenous or exogenous depending on the location of the core. Given that these firms tend to think globally, even if physically placed within the territory, they can be considered nonbounded systems with only a superficial relationship to the local economy.

Table 2.2
Measuring Boundedness: A Typology of Industrial Structures

Governance Structure	Location of Economic Decisions	
	Endogenous	Exogenous
Hierarchy	Core Core-ring	Branch plants ⁴² core-ring
Networked	all ring ring-core	ring-core

All ring is an agglomeration of horizontally-integrated networked small firms without any lead firm and is the only structure which is completely bounded. This structure is marked by an absence of hierarchy and has high external economies of scale and scope, making it particularly dependent on local modes of regulation. The ring-core production is a partially bounded system. Although the ring-core configuration centres on large firms, the system has a high degree of internal and external economies of scale and scope. The large

⁴² As pointed out in chapter one, there is growing evidence that certain branch plants may be able to take decisions independently as vertical structures flatten out. This should be taken into account when looking at individual cases.

firms are strongly dependent upon the smaller, local suppliers. Although the arrangement is hierarchical in appearance as the large firms take the leadership role, they can not dominate absolutely because the core cannot function without the ring, which gives the ring firms more autonomy and bargaining resources. Like the core-ring, the decision-making structure can be exogenous if the core is located elsewhere, but the productive system is more sensitive to local activity given the higher degrees of interdependence.

Where decision-making structures are endogenous to the locality and governance structures are networked, local activity can be most effective. This leads to hypothesis 3.

Hypothesis 3: Institutional thickness and learning capacity is more likely to develop in localities in which the local productive system is completely decentralized and bounded (endogenous decision-making power and a networked governance structure). Conversely, they are least likely to develop when the local productive system is nonbounded (exogenous decision-making power and a hierarchical governance structure).

Let us now look at the last important structural influence on local institutional capacity; the European Union.

II-C. The European Union and Local Institutional Capacity

The last and most recent structural component that influences local institutional capacity is the growth of the European Union (EU) as a source of development funding, policy ideas, political alliances and a new regulatory environment. Because the European Union distributes resources, apportions markets

and arbitrates among various interests at a European level, it can enhance subnational governments' resource base and the strategies they can pursue (Anderson, 1992). As a result, many regions and localities, especially those who have been identified by the EU as eligible for regional aid, have come to view the EU as an ally in the battle for development funding and creative policy making. Additionally, because of the European Union's growing powers in an increasing number of policy areas, lobbying endeavours provide a way for local governments to circumvent or roll back central government and European policies that undermine or constrain their activities. The Commission, in particular, has generally proven to be very open to organized interests, especially subnational government.

One of the general strategies of the European Commission is to build up the institutional capacity of subnational authorities as a means to meet the objective of economic and social cohesion within the European Union⁴³. In fact, European regional policy has been reformed specifically to do so (chapter seven). Since EU regional policy revolves around a partnership contract between the EU, the national government and subnational authorities in the design, financing and monitoring of EU development funds, the subnational authority is brought in as a full partner in the development process and may use this position to leverage in private sector participation and influence the design and funding allocation

⁴³ To achieve economic and social cohesion means closing the living standards gap between the wealthier and less advantaged regions of the Union.

of substantial development monies. Additionally, a number of separate EU programmes require joint applications from local authorities in several EU countries. Hence, the EU can be an important source for network building and often provides extra funding for such endeavours. This leads to hypothesis four.

Hypothesis 4: No matter the institutional starting point, localities involved in European funding will begin to build institutional networks on all levels (intra, trans, and interregional) to increase their access to the European funding and policy design.

However, given the importance of thick institutional networks for integrating external resources into local institutional arrangements, those localities which already possess thick local networks will be able to take better advantage of what Europe has to offer; creating effective synergies between European monies and local action. This leads to the last hypothesis:

Hypothesis 5: Areas which are institutionally thick will be better able to maximise the opportunities presented by the EU and Europe more generally.

This section has outlined the influence of key political and economic structures on local institutional capacity. The next section lays out the appropriate methodological framework for a study of local institutions and industrial restructuring.

III. POWER AND LEARNING IN INSTITUTIONAL NETWORKS: THE METHODOLOGY

Summing up the chapter so far, the central hypothesis of the thesis is that localities may be able to mediate the effects of industrial restructuring if:

- they possess (or are able to build) thick institutional networks linking up public and private resources at multiple levels of interaction and if
- those networks have a learning capacity whereby institutional relationships and policies adapt to meet changing politico-economic conditions.

This institutional capacity is shaped and conditioned by:

- the structure of the State and the territorial and functional division of power and resources
- the structure of the industrial sector and its boundedness to the political administration
- the manner in which the locality is effected by and can take advantage of the policy environment of the European Union

A comparative case study⁴⁴ approach is the most robust methodology for comparing local institutional responses to socioeconomic upheaval because of its unique capacity to manage a large and varied body of data including interviews, documents, statistics, and surveys (Yin, 1989). Since case studies offer the researcher a deeper look into complex social and political phenomena, they have strong explanatory powers (*ibid*). Of particular importance to this research, the qualitative nature of case studies allows the researcher to

⁴⁴ Yin (1989) defines a case study as "an empirical inquiry that: investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used" (p. 23, emphasis in original).

view the interaction of context with the intentional, purposive choices and strategies of the individual actors (Hakim, 1987, Rose, 1991).

This section is subdivided into two parts. III-A discusses the advantages and disadvantages of the case study approach and then explains the choice of cases. III-B then outlines the methodology for operationalizing and measuring the main concepts used in this study; networks, thickness and learning.

II-A. The Case Study Approach and the Choice of Cases

The study is based on a cross-national binary comparison of two localities. Binary comparisons are able to highlight importance of the context or the institutional factors, as key explanatory variables (Dogan and Pelassey, 1990) making it an effective tool for the study of institutions. Since the researcher is investigating the same topic in different contexts, it allows for greater theoretical sophistication because the comparison encourages the reconceptualization of the research questions themselves and helps to refine the key operational devices and concepts being investigated (ibid.). When dealing with devices as elusive as networks and learning, this is of particular value. Additionally, cross-national comparisons also make it easier to ascertain the more important determinants of policy and distinguish what problems and solutions are peculiar to the locality and which are common across countries thus providing an important source for

informing policy in other areas (Hall, 1986).

When using binary comparisons, the researcher must guard against two risks (Dogan and Pelassey, 1990). First, the subject may be more appropriate to one case rather than the other. For this research, although institutional thickness is arguably more appropriate to the Italian case (see below), the role of networks and the importance of institutional change as part of the local response to industrial restructuring is common to both, hence the comparison is a valid one for both cases. Second, it can be extremely difficult to extract general truths from the specifics of the individual contexts. Case studies, however, should be generalizable to theoretical propositions rather than to specific populations or universes (Yin, 1989). Although this difficulty can not be completely overcome, in this study it is alleviated by the existence of certain shared contextual variables including global changes in the textile industry and the increasing influence of Europe on national and local activity. Hence, given certain shared contexts, general theoretical conclusions can be offered. Furthermore, since this thesis is evaluating the merit of certain theories of regional development, the case studies do provide an important way to test generalizable theoretical propositions.

The choice of cases was determined by four criteria. First, both localities had to be dependent on a common industrial sector in the throes of restructuring. The sector chosen was the textile and clothing industry which has been recognized since the 1970s as an industry in crisis within

Europe. Despite evidence that industrial decline within the textile and clothing industry can be reversed, many national governments have not attempted to do so, leaving the job to subnational authorities. Furthermore, many European textile and clothing firms are particularly vulnerable to the increased competition that will be loosed as the internal market is realized, the multi-fibre agreement is phased out, and trade ties with EFTA, Eastern Europe and the Mediterranean countries are strengthened (CEC, 1991c). If European firms are to survive, they must adapt to changes in the international fashion market which is becoming increasingly fragmented as individual tastes rather than designer-created trends drive demand (Rosen⁴⁵ cited in Zeitlin and Totterdill, 1990). In practical terms this means that firms must overcome their reliance on mass production methods and the production of simple products with unchanging technologies and minimal capital inputs. To compete, firms require more flexible production methods that favour just-in-time small batch strategies and must produce higher-cost, quality-driven goods for more sophisticated markets.⁴⁶

The second criteria is that the local authorities must be pursuing policies to assist the industry restructure over a substantial period of time--at least a decade--in order to evaluate the learning capacity of institutions. Third, the

⁴⁵ Rosen, M. (1984) 'A Study of Market Segmentation and Target Marketing', Hollings Apparel Industry Review, May.

⁴⁶ This does not preclude the necessity of diversification for some areas--to move away from an overdependence on one industry.

cases must be from different countries in order to gauge the effects of state structures. Finally, both areas had to be eligible for the same type of European assistance, in order to effectively assess the effects of the European Union on institution building.

Two cases fit the bill, Prato in Tuscany, and Nottingham in the East Midlands. Both are historic centres for textile and clothing production and the industry still represents a substantial proportion of manufacturing production and employment. Although both Great Britain and Italy are unitary states (as compared to federal states), Italy is regionalized while England is not, allowing us to test for differences in state structure.⁴⁷ In both localities, over the past ten years or more, the local governments have taken steps to help the industry weather the economic crisis. Finally, both are Objective 2 areas according to the EU and thus eligible to receive funding from and participate in the same sets of EU programmes and policies.

Finally, each case was in a different stage of institutional development when the local initiatives were first generated. The Italian case, the textile district in Prato, has long been considered the prototype of an industrial district, and whose economic crisis has led to a general

⁴⁷ Great Britain is actually made up of four countries: Wales, Scotland, England, and Northern Ireland. Although there are specific Ministries for three of the four areas (England is not included), the central government has the power to reconfigure local government structures at will. There are no specific rights, powers or functions that are constitutionally guaranteed. Thus for purposes of this study Great Britain is a unitary state. Henceforth, I will discuss England, because that is the more accurate reference to describe the case studied.

questioning of the district model. Believed to be an archetype of institutional thickness, it presents a rich test case of the learning hypothesis. The second case, Nottingham, charts one local government's attempts to restructure its struggling textile industry to survive in an increasingly hostile environment. Many of these policies were aimed at strengthening the institutional infrastructure, hence institution building has been an important component of Nottingham's overall strategy. A comparison of these two cases will illuminate the institutional conditions necessary to promote and sustain flexible productive structures when the industry is under threat, and give us a greater understanding of the role of institutional thickness and learning, in different phases of development in the industrial restructuring process.

The heart of the study comprises semi-structured in depth personal interviews with subnational government officials, development agencies, university and research institutions, vocational training providers, trade and employer associations, textile service centres, chambers of commerce and other area institutions involved in the development process. Around twenty interviews were conducted in each locality. Generally, elite interviewing provides an important way for testing hypotheses as well as gathering qualitative information and informed insights in a relatively unstudied area (Pridham, 1987).

In each case, the choice of actors was determined by three methods: (i) identification in documentation which

includes names that appeared frequently in newspapers, development plans, council meeting minutes or other relevant material; (ii) reputational identification which were those identified during the interview process or in preliminary information gathering interviews; and (iii) positional identification which are those agents who might be included in the process because they are part of a general policy domain or hold a particular position within the community.

The choice of cases has been discussed. The next task is to establish an agenda for operationalizing and measuring the key concepts; networks, thickness and learning.

III-B. Operationalization and Measurement

To understand the role of institutions in the development process requires a two-stage strategy. The first stage is to map the institutional infrastructure by identifying the key actors, examine their roles, functions, and missions, and distinguish their interrelationships (or networks). Social network analysis (SNA), which provides efficient statistical tools for identifying the structure of the network, measuring network density, and recognizing the distribution of local power is used to evaluate the networks in both cases. A number of different software programmes are available to conduct SNA. This thesis employs UCINET (Borgatti, et. al, 1992).

The information to perform SNA comes from the semi-structured interviews. (Appendix A presents a copy of the

questionnaire.) Respondents were asked with whom they interacted with on a regular basis to exchange information and advice in areas of common interests. Although this approach was generally successful, it did encounter some problems. In particular, within a relatively well-defined community, a lack of regular meetings does not indicate the absence of reliable linkages. As one respondent noted, "I have no regular meetings with county officers or members. But ...I keep in contact with the people I need to speak with."⁴⁸ Such a response would be interpreted as an existing linkage. In small cities, people know each other and degree of information exchange is hard to accurately measure. One respondent noted, "I tend to meet people I need to speak to at least once and probably twice a week... Its more informal. We now tend to have a meeting when we actually need one rather than to have one every month because we have one every month."⁴⁹ As a result, many respondents had difficulty interpreting the meaning of regular exchange. To overcome this, a second question was asked (either in addition to or in place of the regularity question): With whom they most often undertook joint activities with? Although it does not demonstrate regularity of linkages as such, this question provided information on important relationships outside any specific policy issues or questions. Adding to the difficulty of measurement, there is always a strong amount of overlap amongst the key leaders in the various organizations and numerous opportunities for

⁴⁸ Interview 41.

⁴⁹ Interview 41.

many of these people to mix at social functions in the community. One respondent noted, "Operating within the County, one is always attending things where one meets these people socially as well as for business."⁵⁰ Despite these problems, the information supplied through these two questions were sufficient to create an adjacency matrix; a statistical tool which measures the presence or absence of linkages among the institutions within the community; in other words it draws the network. The patterns of linkages which emerges describe the position or role of each organization within the general community and portray the nature of the relationships among these positions (Knoke and Kuklinski, 1982, p.17). As well as mapping networks, these statistical tools can also provide insights into local relationships.

Using the adjacency matrix, SNA can measure the degree of institutional thickness (density calculations), suggest the extent to which power is centralized within certain actors (centralization measures), and identify network structures (structural equivalence measures), and finally graph the network structure to assess the potential of these networks for promoting innovation, information exchange and collective action. Density measures the connectedness or disconnectedness of the entire network whereby zero refers to no connections between any actor and one means that all actors are linked to all other actors. Density demonstrates the strength of ties and can be used as a partial measurement for thickness. The higher the density, the tighter and the thicker is the

⁵⁰ Interview 31.

network. Thickness, however, has qualitative as well as quantitative characteristics. These elements were also explored during the interviews and data gathering efforts in each case study. The density measure allows us to measure the quantitative aspects of thickness in a way that makes the networks directly comparable. The qualitative aspects of thickness are also considered.

Complementing the density measure is the measure of centralization. Density refers to network cohesion while centralization refers to the degree to which this cohesion is organized around specific prominent points; those actors with the greatest number of linkages (Scott, 1992). Actor centrality indicates the degree of involvement a particular actor has in all network relations; the more central, the more involved. Centrality is a useful but partial indicator of power; the more resources an institution can tap into, the stronger will be their bargaining resources (Figure 2.1). However, only an analysis of outcomes can assure us that this measurement of power is correct. Centrality can also demonstrate the vertical or horizontal structure of the networks. Finally, structural equivalence distinguishes common social positions based on equivalent activities with respect to relational linkages (Scott, 1992). In other words, this technique identifies which actors have similar positions within the network. This thesis uses the CONCOR technique of structural equivalence because it "produces a classification of network actors into discrete, mutually exclusive and exhaustive categories" (Knoke and Kuklinski, 1982, p.73) based

on the nature of their interorganizational relationships.

Chapters three and four analyze in depth the institutional map of Prato and Nottingham, respectively. Each chapter first examines the effects of state and industrial structures on local institutional capacity⁵¹, maps the local institutions involved in the industry, and then presents the results of SNA to initially assess the institutional networks found in each case. Chapters five and six then look at the initiatives supporting the textile industry and the institutional relations involved in their development over time to assess the learning capacity of the different institutional structures; the qualitative aspects of thickness and power.

The last task set for this chapter is to establish criteria for assessing that learning capacity. The criteria must recognize the dual nature of learning which is, to reiterate, the ability to adapt both policy and institutional arrangements to new conditions. Even under crisis conditions, such as industrial restructuring, institutions still have clear incentives to pursue learning. On one hand, information can demonstrate problems and gaps in existing policies, enhance their understanding of where such gaps come from, and garner support for their policy positions. On the other hand, information and knowledge increase an institution's resources, thus its bargaining strength which is of tantamount importance when institutional relations are themselves under substantial

⁵¹ The effect of the EU is assessed separately in chapter seven.

pressures to change (Sabatier, 1993).

The following indicators, which acknowledge the multi-faceted nature of a learning economy as discussed in chapter 1, are used for evaluating the learning potential of institutions.

- The presence of multiple fora for dialogue which cover both strategic issues as well as more specific policy areas. These fora include conferences, advisory committees, technical advisory committees, temporary groups, or interagency committees (Jenkins-Smith and Sabatier 1993). Chapter one showed that dialogue was a fundamental component of learning.
- In response to economic crisis, the networks will increase their weak ties. Advice will be sought in new areas and networks will expand to bring in new actors. In other words, institutional relationships will change to meet changing needs.
- There will new policies, new policy tools and policy experimentation. In particular, these new policies will focus on institution-building and promoting innovation among institutions and firms.
- There is general agreement as to what constitutes acceptable concepts, methods, data, and theories concerning the policy problem (Jenkins-Smith and Sabatier, 1993). In other word, there is general consensus defining the problem, although there may be disagreement as to the exact solution.
- Although learning must take place in the political sphere, there must be sufficient channels between policy actors and individual firms so that the firms inform the process and partake in the fruits of the learning effort. The presence of these channels is a crucial component of a learning economy as it provides the link between political processes and economic activity. Without that link, even the most sophisticated institutional architecture would be unable to promote development. Hence it is this link which provides the foundation for the theoretical framework of the learning economy.

This chapter has identified different types of networks and laid out a research strategy for evaluating the role of

institutional networks in the industrial restructuring process. We turn now to chapters three and four which offer institutional maps of each locality and assess the extent of network development.

3. THE POLICY ENVIRONMENT IN PRATO: CONSTRAINTS ON LOCAL CAPACITY

INTRODUCTION

This chapter draws an institutional map of Prato to identify and assess the policy environment of the local system of economic governance. It is divided into three sections, each providing an analysis of key institutional structures: the state, the economy and the networks which integrate them.

I. STATE STRUCTURE⁵²

As outlined in chapter 2, certain institutional arrangements constrain the development of local capacity and local networks. To reiterate these are: 1) the division of power between different levels of the state and the intergovernmental relations that emerge from that division; and ii) the nature of the political elite--their skills, motivation, and training and the relationships between elected representatives and the public administration.

⁵² This discussion of the Italian local government system refers to the pre-1990 reforms because most of the initiatives covered in this thesis occurred between 1975 to 1990.

To examine these issues, this section will be subdivided into three parts moving from a consideration of national institutional characteristics to the specifics of the Prato case study. I-A assesses the system of intergovernmental relations and how organizational, policy and financial powers and resources are allocated. The second section, I-B, looks at the quality of the political class. Finally, I-C, outlines Prato's circumstances.

I-A. DISTRIBUTION OF POWERS AND INTERGOVERNMENTAL RELATIONS IN ITALY

In Italy, there are three levels of subnational government: municipality (8,100), province (95), and region (20)⁵³. Since the post-war period, Italy has moved from a highly centralized system to a mixed model (neither unitary nor federal). This movement has been incremental and piecemeal, based on political compromise rather than any guiding ideal as to how best to structure subnational government (Leonardi, et al. 1987). Despite a constitutional provision for them, most regions were not established until 1970⁵⁴. Subsequent reforms have been

⁵³ Also augmenting the diversity among Italian local government has been the dispersion of other subnational institutions including (but not limited to) mountain communities, local health units, neighbourhood councils, and comprensori (catchment areas created by regional law to ease region-wide development and planning). What these units do changes from region to region.

⁵⁴ Five regions, Valle D'Aosta, Friuli-Venezia-Giulia, Trentino-Alto Adige, Sicily and Sardinia, have special status and greater constitutional powers. These regions were set up between

necessary to manage the problems of introducing a new political tier. Consequently, the local government system is more a by-product of regional reform than a specific structure set up to meet local needs.

Although the over 8,000 municipalities are vastly diverse in size, their powers are theoretically uniform across the country. In practice, the vast size differences, coupled with the strength of an administrative law tradition, have encouraged the growth of a marked heterogeneity among municipalities regarding service provision, political performance and efficiency.

Comparing the effects of this administrative law tradition with the British local government system, Dente (1985) noted that the British are primarily concerned with discretion or autonomy. According to Dente (1985), this consideration creates:

a situation in which the actors (the local authorities) are free how to act, and can be restricted only in respect of what they do, of the content of their actions (for instance, by an ultra vires clause or through financial instruments.) As against this, the Italian situation is characterized by the introduction of strict limitations on the modes of action of local authorities (on the how) without this having clear consequences on the content of their decisions (emphasis in original, p. 127).

Therefore, within the Italian context, policy discretion is a highly ambiguous concept. There are two reasons for this ambiguity (Dente, 1985, pp.135-36). On one hand, it is difficult to follow policies without the consent of the centre which has

1948 and 1963 in recognition of their strong cultural and regional identity.

overlapping responsibilities in the same field. On the other hand, it is possible to pursue policies that run counter to national interests if they were legally adopted. As a result, larger and better endowed subnational governments have been able to be more innovative, often pursuing policies that appear to be outside their legal competences while smaller, lesser endowed administrations often have been unable to furnish the basic services they are required by law to provide. Thus, the uncertainty regarding local government activity allows for a high degree of flexibility within intergovernmental relations, offering municipalities (which can accumulate adequate resources) some space for policy freedom and innovation.

This flexibility has been enhanced by the way in which powers and functions have been distributed among various levels of government. Table 3.1 below shows the legal distribution of functions among the three other levels of government. In most policy areas (except traditional), functions are shared among various levels of government.⁵⁵

⁵⁵ Provinces have not been included because they play a secondary role compared to other levels of government. Whereas the province still holds the prefect or state representative, the creation of the region has significantly reduced the prefect's role as well as many of the province's functions which are limited to psychiatric hospitals, provincial roads and secondary education from 14 to pre-university (not including teachers).

Table 3.1
Distribution of Functions by Level of Government in Italy

Policy Area	National Government	Regional Government	Local Gov.
TRADITIONAL			
Justice, Police, Public Admin	xxxxx		
Foreign Affairs, Defence Emergencies	xxxx	x	
Monetary system, Int'l Currency	xxxxx		
Foreign Trade, Customs	xxxxx		
Central Finance, Public Debt	xxxxx		
Statistics, Media, Communications	xxxxx		
ECONOMY			
Agriculture, Forestry	x	xxxx	
Handicrafts		xxxx	x
Industry	xxxx	x	
Commerce, Trade, Markets	xx	xx	x
Tourism		xxxx	x
Credit, Banking, Insur.	xxxxx		
Employment, Industrial Relations	xxxxx		
Economic Planning	xxx	xx	
SOCIETY			
Education	xxxx		x
Health		xxxx	x
Social Services		xxx	xx
Social Insurance	xxxxx		
Manpower Services	x	xxxx	
Culture, Leisure	x	xxx	x
TERRITORY			
Town & Country Planning		xxx	xx
Housing		xx	xxx
Public Works	x	xxx	x
Public Transport	xx	x	xx
Roads	xx	x	xx
Water		xxxxx	
Mining & Energy	xxxxx		
Environmental Management	x	xxx	x

Source: Hebbert and Machin (1984).

This strong overlap of functions is a central issue for understanding the Italian local government system. Sanantonio (1987) notes:

...[F]unctions are carried out by all the bodies at the same time and in the same area, competing, overlapping and interacting with each other, creating flexible networks for policy-making implementation. ...The rigid elements within it, such as formal responsibilities and hierarchical powers, tend not to be absolute, but combine with the more flexible ones, such as widespread participation in policy-making processes and broad sharing of responsibilities (p. 114).

Since no level of government has exclusive responsibility for any function, interdependence and integration, thus flexibility, demarcate intergovernmental relations (ibid. pp.114-115). However, often the law includes highly detailed descriptions regarding the function, the appropriate level, the service content, how it is to be delivered. As a result, different policy areas are balanced to the advantage of different levels of government depending on the legislation (ibid. pp.115-116).

The consequences of this overlapping system are three-fold. First, the unclear distribution of functions among levels of government has led to a flexible, integrated system of intergovernmental relations which generally allows local authorities some policy space provided they have the resources to pursue them. Second, this overlap has lead to the building of intergovernmental policy networks within specific policy areas which have established stable rules of the game among the participants thus providing the necessary environment for proactive policy-making and collaboration in areas of common

concern. Finally, the requirements of constant bargaining among levels of government means that regular dialogue is present, thus providing the foundation, at least, of a learning environment. Let us turn to see how this situation has influenced Italian local government in the area of economic development.

Looking again at Table 3.1, powers for governing the economy are shared predominately among the region and the centre. Briefly, the region's constitutional powers include: agriculture, forestry, tourism, health, water, artisans, economic planning, manpower services and commerce, trade and markets. Since the region shares its economic planning function with the centre, the potential for central interference and control is high. Alternatively, the municipality has minimal economic powers covering crafts, tourism, and commerce, trade and markets, all of which are shared with the region. While certain regions may devolve some of their powers to the municipalities, the degree to which this has occurred varies greatly across the country. No level of subnational government has any formal role in industrial policy, employment, or credit and banking (Hebbert and Machin, 1984).

Alternative constraints on local policy powers emerge from the system of local government finance. Italian subnational government has minimal power to tax⁵⁶ and thus relies almost

⁵⁶ Once able to set taxes, local government authorities lost this power in the first regional reform (1970). In 1970, local government taxes made up 56.8% of municipal revenues, by 1974 this

completely on the central government transfers for its finances.⁵⁷ In 1989, 73% of local expenditures came from public transfers (Fraschini, 1992, p.81). Although strictly controlled, the funds come, however, in the form of a block grant which gives the local government a great deal of discretion on how that money can be spent. Although they do have a great deal of spending power, from the local government's point of view this dependence on central transfers and the uncertainty that this instills has made it very difficult to prepare the three year spending programmes and investment budgets that is required of them by law (Leonardi, et al., 1987).

Because of the constitutional and financial constraints on their formal economic powers, local government has had to follow indirect strategies for pursuing development and has thus relied heavily on its powers in the social and territorial policy domains. Economic development, therefore, has been fostered indirectly through the provision of social services (day care, cafeterias, transport), the strengthening of infrastructure, the promotion of technical and professional vocational training, and the use of urban plans, commercial licensing, and industrial and commercial zoning (Freschi, 1992, Romagnoli, 1992). In fact,

had decreased substantially to 18% and has more or less remained at this level (in 1989 it was 17.5%). Local governments take in these small yields by charging fees or taxes for posters, advertisements, solid waste collection, dog licenses, and temporary resident taxes and a few others (Fraschini, 1992).

⁵⁷ In certain areas, however, the region is responsible for distributing state funds which can give the region some discretion over local spending (Sanantonio, 1987, p.122).

many have successfully utilized their planning powers to guide growth and prevent congestion, overcrowding and skyrocketing land prices thus helping to keep housing and workshop costs down and allowing both business expansion and home ownership (Nanetti, 1988, Brusco and Righi, 1989).

By employing a pragmatic approach to economic planning, Italian subnational government has fashioned an endogenous model of development (Nanetti, 1988). As well as providing the above-mentioned services, this model is also based on the provision of advanced business services (servizi reali) to small and medium-sized firms (SME's), which help these firms to contain the costs of innovation, secure new markets, assist in the restructuring of productive capacity, and expand production activities through the promotion of cultural, environmental and archaeological resources. These policies are characterized by both a specificity to the local economy and their small scale which allows for a multiplicity of initiatives. Additionally, Italian subnational authorities have developed residual powers and have been able to extend their roles in strategic sectors such as business credit and finance by working in partnership with local institutions (i.e. the Chamber of Commerce).⁵⁸

In short, the Italian system of subnational government can

⁵⁸ For example, subnational authorities have been able to provide business credit through two indirect strategies; 1) by serving as guarantors between credit institutions and businesses, and 2) by creating public-private holding companies in which they hold the lion's share of the capital (Nanetti, 1988, pp.102-114).

be understood as:

a complicated institutional tangle in which it is easier to identify forms of co-operation, co-management and joint endeavors than clear and sharp divisions of exclusive responsibility (Sanantonio, 1987, p.129).

Thus the political institutional landscape is marked by overlapping, crisscrossing networks both across levels of government and between government and civic society. Although this institutional tangle does provide policy space, stable rules of the game, and habits of cooperation, which are important tools of policy-making, the absence of direct economic powers have required that local authorities be creative, relying instead on other indirect functions and manipulating these intertwined networks to pursue development. Nevertheless, specific legal constraints on their ability to enter certain policy fields and an almost complete dependence on the centre for its financial resources set clear constraints on the local policy process and thus many policies have been indirect and partial in order to conform to legal and financial requirements. Let us turn now to examine the nature and quality of the political elite and their influence on economic development.

I-B. THE LOCAL POLITICAL CLASS: THE DOMINANCE OF POLITICAL PARTIES

Italian subnational government was elected according to a system of proportional representation. Since Italy is a multi-party system, local government is usually run by some type of

coalition.⁵⁹ Once elected, a ruling council is chosen from the elected representatives, who in turn choose a leader (mayor for the municipalities⁶⁰, president for the regions). Each member of the ruling council, called an "assessore", becomes a minister responsible for one of the various departments. Thus power lies with the elected officials.

The Italian elite system has three characteristic features: a legalistic, inefficient bureaucracy, mass parties, and a high degree of politicalization. This system, run almost completely by the political parties has been labelled 'Partitocrazia' or partyocracy. The interests of professional groups are subordinated to partisan politics which is the reverse of the British system (chapter 4), where these groups often capture local government departments. Thus the main channels of access to external resources are political, through the party system. In fact, bureaucratic posts are distributed via party channels as a form of patronage. While there is an exam system for allotting civil service positions, it is very time-consuming and highly academic in content encouraging the use of informal appointment procedures to avoid the delays and inadequacies of the official system (Furlong, 1994).

Personnel recruitment is a key issue for making sense of

⁵⁹ Recent changes in national electoral laws, and an expressed intention to transform regional electoral laws, may be moving Italy toward a more bipolar party system. It is, however, too early to make any definitive conclusions.

⁶⁰ A law passed in early 1993 has reformed this system so that mayors are now directly elected.

the Italian bureaucracy and has four important consequences for the functioning of the Italian public sector (Cassese, 1993.) First, too many civil servants⁶¹ are appointed using inappropriate selection criteria. Second, civil servants lack motivation which is attributable to the hierarchical structure which discourages initiative (Spotts and Wieser, 1986), the nature of the public sector pay system which has very small wage differentials⁶², and absolute job security. Third, the public sector provides a secure salary and pension, thus many try to find secondary work in the parallel economy. Finally, a large number of civil servants are recruited from law (50% have a law degree) thus a legal mindset rather than an economic or planning mentality structures public sector activity.

This legalistic mindset has had particularly negative consequences on the policy process. Hine (1993) notes:

But the strict legalism of the system, together with the cautious and conservative mentality of recruits to it, have ensured that senior civil servants are fastidious guardians of a rigid dividing line between policy and administration. They have chosen not to become involved in the policy process, and have been resistant to the development of a managerial and entrepreneurial outlook (p. 242).

As a result, relationships with civic society are not part of the job of the public administration as it is in most European countries but rests solely in the hands of the political parties

⁶¹ The problem is not the size per se but the inadequate distribution of human resources. The south is overstaffed while the north is understaffed.

⁶² The proportion of highest to lowest salary is 1 to 3 while in the UK it is 1 to 6 (Cassese, 1993).

(Furlong, 1994).

This bureaucratic inefficiency has profound consequences for local initiatives. For example, decision-making takes three times as long than it does in the private sector. For example, permission for a construction project generally takes up to three years. This sluggishness can block, and ultimately undermine, important development projects. Additionally, European monies are regularly forfeited because government agencies have been unable to develop project proposals within EU deadlines (Spotts and Wieser, 1986). The transfer of national and European money to the local level can also take an enormously long time, blocking the initiation of important projects. Thus, even the most efficient of all subnational governments is subject to tremendous delays and, as a result, many things do not get accomplished.

Consequently, the inefficiency and hostility of the public sector has elevated the role of the parties and local MPs because of their ability to transfer resources and circumvent bureaucratic channels (Dente, 1985). The use of parties and MPs as interlocutors with the centre suggests that resource transfers between centre and localities often goes beyond the legal rules (*ibid.*).

Work by Sidney Tarrow (1974) has demonstrated that local mayors play fundamental roles as political brokers. His study found that 73% of all mayors polled felt they could ask the help of deputies from other parties and expect some satisfaction. In

fact, the more involved a mayor is with her own party, the greater the likelihood that they could successfully request assistance from other parties (p. 46-47). Tarrow notes:

For, in order to get for his community the kinds of resources a French mayor [or British official] seeks within the structures of ordinary administration, the Italian local official must manipulate a broad range and shifting panoply of contacts both within and outside of his party (p 46).

Therefore, while local authorities are highly politicized, they are also pragmatic in their approach to dealing with the opposition.

The importance of political parties for understanding economic development policy does not emerge simply from their role in the transferring of needed resources. Rather, different parties have had differing impacts both ideologically and organizationally on the quality of the local elite and their involvement in economic development. In particular, the parties of the left (PDS)⁶³, with its selective recruitment procedures, tight party discipline, and desire to demonstrate its governing capacity through local arenas, is widely believed to provide good local governance (Brusco, 1982, Putnam, Leonardi, and Nanetti, 1993). Spotts and Wieser (1986) note "The party built up a reputation for being on the whole responsive, honest and efficient"(p. 54). Additionally, since the PDS has permitted, for historical and organizational reasons, a broader range of

⁶³ In 1990, the PCI (Partito Comunista Italiano), the Communist Party, changed its name to the PDS (Partito Democratico della Sinistra) or Democratic Party of the Left. For the sake of consistency, PDS will be used throughout.

alliances at the local level, it has more room for imagination and initiative (Tarrow, 1974, p.4).

PDS-run cities, in particular, are known to provide a high standard of public services, have high expenditure levels, encourage high levels of citizen involvement⁶⁴, and offer higher wages for municipal employment (Dente, 1985: 139). These characteristics provide important organizational resources for economic governance including an organized party structure which provides a well-trained, disciplined political elite⁶⁵, a well-developed social and physical infrastructure, and a responsive, participatory public. However, despite higher pay levels, the partisan nature of the civil service recruitment remains high. "On the regional, provincial, and communal levels where they [the PDS] are in control, they direct the process with equal partisanship though perhaps less corruption" (Spotts and Wieser, 1986, p. 149). Even if the local administration is somewhat better than those found in other areas, it still remains more a liability than an asset for efficient policy efforts.

Within the sphere of economic development, for political and ideological reasons, the PDS has consistently supported small firm development at both national and local levels (Brusco and Pezzini, 1990). Thus, the network of PDS local authorities

⁶⁴ For example, 73% of centre-left cities established neighbourhood councils while only 40% of Christian Democrat (DC) cities did (Dente, 1985, p.139).

⁶⁵ Tarrow (1974) discovered that 76% of PDS mayors had previous partisan experience while 29% of PSI mayors (Italian Socialist Party) and 30% of DC mayors had similar experience.

has provided an interesting portfolio of policy initiatives, easily transferred through party channels, which has supported development. The endogenous model of development discussed has been particularly strong in leftist localities. Let us turn to look at the specifics relevant to a study of Prato.

I-C. PRATO

Prato is a small city in the Tuscany region with a population of 165,000 (1989). In 1991, together with 6 other communes⁶⁶, it became a province in recognition of the self-contained nature of the local economy and the local labour market (Sforzi, 1990). At the time of this research, the province had not been fully instituted but certain key functions, such as vocational training, had been delegated to an Intercommunal Association until the Province is officially established in 1995.

The Region of Tuscany has a general policy of devolving powers and working with local authorities, thus allowing them to tailor their policies to meet local needs. "To support the conditions of the industrial district, we let the municipality put the projects together and the region participates...financially and only financially."⁶⁷ Thus, Tuscany's main role is as funding body and as a channel to other

⁶⁶ The other communes in the Province are Vernio, Cantagallo, Vaiano, Montemurlo, Carmignano, and Poggio a Caiano. Prato is the largest and often acts as the province spokesperson.

⁶⁷ Interview 1.

sources of funding such as the centre or the EU.⁶⁸ A recent study by Merloni et al. (1988) found that, indeed, a large share of economic development activity was conducted at the municipal rather than regional level in Tuscany. For example, in the area of fairs and exhibitions, the municipalities were responsible for 45.4% of all related activity while the region accounted for 36.4%.⁶⁹ In the area of services to industry, the Tuscan municipalities were responsible for 31.3% or one third of activity.⁷⁰ Consequently, within the regional context, Prato has a good deal of policy autonomy. All the respondents interviewed agreed that local-regional relations were collaborative and they expressed overall satisfaction with the extent and nature of the relationship.

Central-local relations, alternatively, have not been satisfactory. In fact, the most notable feature regarding the central government is its absence. As discussed above, this is not reducible simply to the fact that the city is run by the Left and the central government is centrist. Part of the explanation comes from Prato's long history of self-sufficiency. Given the strength of its economy and social structure and its age-old competition with the city of Florence, Prato has always

⁶⁸ Interview 1.

⁶⁹ Compare this to Lombardy where the region accounted for 78.6% while only 14.3% of activities were pursued by municipalities.

⁷⁰ Compare this to Sicily where municipalities were responsible for only 10.5% of all services to industry.

had a go it alone attitude (Mormile, 1993). Secure in itself, the city never fostered strong relations with the centre.

The economic crisis that hit in the 80s signalled the end of its self-sufficiency (*ibid.*). However, the few attempts to tap into the centre to gain assistance dealing with the crisis were not successful. "They came for a bit, made promises, looked around, but nothing ever came out of it."⁷¹ Central-local relations remain infrequent and underdeveloped with the only regular role coming through the partnership agreement required for EU Structural Funds⁷².

The last important issue is that of Prato's political colour. Tuscany and Prato are part of the Italian red zone, regions characterized by the electoral majority of the PDS, thus political continuity or monoculture is a key feature of the political landscape.⁷³ Prato is a Left-run city and has been so since the post war-period. Table 3.2 shows the electoral record for the local council in Prato from 1946 to 1990. The dominance of the PDS is immediately evident. Although it has often governed in coalition with other parties especially the Socialist Party, the PDS has always held the mayorship.

Like a typical Leftist city, Prato's activities have established " a vast network of social services and implemented

⁷¹ Interview 2.

⁷² The region, however, remains the main interlocutor between the municipality and the EU.

⁷³ Emilia-Romagna and Umbria are the other two regions which comprise the red zone.

MUNICIPAL ELECTIONS IN PRATO 1946-1990

(percentage of votes by party)

	PCI / PDS	PSI	DC	PSDI	PRI	PLI	MSI	OTHER
1946	40.06	23.40	29.88		3.20	2.36		1.10
1951	37.44	14.07	37.76	5.25	1.41	1.37	1.39	0.79
1956	39.44	13.37	37.79	3.93	1.56	0.68	3.23	
1960	42.78	12.19	37.02	3.39	1.01	0.99	2.62	
1964	45.88	9.22	31.32	3.75		4.83	2.75	2.25
1970	46.75	7.58	30.51	5.51	0.95	2.49	3.48	2.73
1975	49.78	9.97	28.04	3.46	1.74	1.14	3.18	2.69
1980	49.42	11.50	29.30	2.67	1.94	1.10	2.69	1.38
1985	47.50	13.20	28.63	1.12	2.61	0.95	3.18	2.81
1990	42.10	17.40	26.10	1.00	2.40	0.90	2.50	7.60

SOURCE: Partini (1992: 33)

Table 3.2

a dialogue with all economic associations continuing to reach, despite its evident weakening in the past few years, a political consensus" (Partini, 1992, p. 23). The strength of the PDS in Prato derives from four conditions (*ibid.*): 1) history and tradition; 2) solid roots of both political and economic associationalism which has supported a shared experience of conflict and cooperation; 3) a strong party organization; and 4) the ability to integrate immigrants, mostly from southern Italy, into the local system (the population doubled between 1951 and 1981). Consequently, the elected political elite in Prato should be of top calibre. The local public administration,

unfortunately, retains true Italian form; sluggish and inefficient. One observer noted "The public [sector] is slow to do."⁷⁴

To sum up, Prato has certain institutional resources including collaborative regional-local relations in many policy fields with established, stable rules of the game, some autonomy in spending powers, a well-trained political elite ideologically predisposed to economic interventionism and community consensus regarding local economic governance, all of which provide a solid foundation for a learning economy. Constraints on local capacity emerge from an almost complete dependence on central financial transfers, undeveloped relations with the central government, and an inefficient, obstructive public sector.

II. INDUSTRIAL STRUCTURE

This section looks at the structure of the economic institutional environment and the degree to which it is bounded (the extent of correspondence between the local economy and administrative boundaries), and locally dependent. This section will be subdivided into two parts. II-A outlines the institutional structure of Prato, known as the industrial district, and assesses the degree of boundedness and local dependency present in Prato's economy. II-B then looks at the crisis and the problems of structural adjustment the locality

⁷⁴ Interview 11.

faces and what effect this may have on boundedness and the future of the local system of economic governance.

II-A. BOUNDEDNESS AND LOCAL DEPENDENCY

Tuscany is one of the most important textile regions in Italy, providing a home for 17% of all Italian textile firms (see Figure 3.1).

Within Tuscany, the Prato textile industry district, which specializes in carded

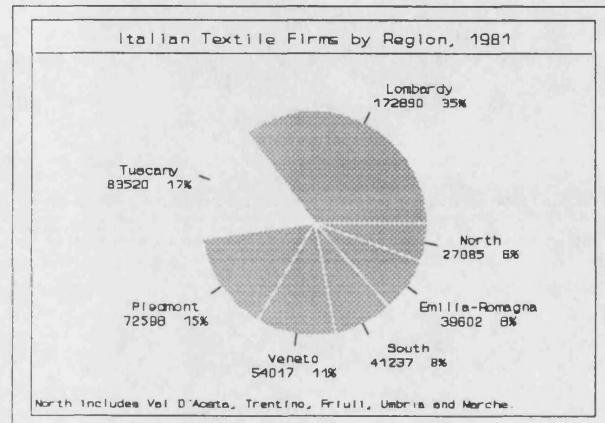


Figure 3.1

woollen yarns and fabrics, is of critical importance. In 1981 Prato provided 32% of the employment of the entire Italian wool industry.⁷⁵

Looking at the province of Prato⁷⁶, table 3.3 shows the distribution of firms and workers in the textile-clothing industry. The weight of the textile industry in the local economy is substantial. Although the industry has undergone a crisis over the past decade, it still employs around 86% of the manufacturing workforce and 39% of the entire labour force.

⁷⁵ Data from the Italian Wool Association cited in Bellandi and Romaganoli (1994).

⁷⁶ The industrial system corresponds more accurately to the province not the city.

TABLE 3.3
TEXTILE AND MANUFACTURING FIRMS AND EMPLOYEES
IN THE PROVINCE OF PRATO, 1961-1991

Year	Textiles		Total Manufacturing		Textiles		Total Labour Force	
	Firms	Labour	Firms	Labour	% of Man. Firms	% of Man. Labor	Total Labour Force	% Tex. of all Labour
1961	6338	38303	7447	42496	85	90	51297	74
1971	8740	42163	9818	46898	89	89	67494	62
1981	11503	50216	13015	56661	88	88	95471	52
1991	7362	36336	8649	42028	85	86	92794	39
1991/ 1981	-4141	-13880	-4374	-14633			-2677	
1991/ 1981 (%)	-36	-27.64	-33.55	-25.83			-2.8	

Source: Bellandi and Romagnoli (1993: 186), elaboration by author.

The organization of the Prato textile system is representative of the unique economic structure of the Third Italy (See Bagnasco, 1977). The distinguishing characteristics of this economic structure is that small and micro firms rather than large firms are important agents of industrialization and economic dynamism. In Tuscany, 40.2% of all firms were registered as craft firms in 1991⁷⁷ (Grote, 1992, p.139). Table 3.4 examines textile employment by plant size. In Tuscany

⁷⁷ Artisan firms are legally defined as those entrepreneurs who own the means of production, the owner participates in the firms productive activities, and have a maximum of 22 in-house employees including family members (Lazerson, 1990 :112). Artisans receive special dispensations from certain labour and social security laws. Craft firms make up the bulk of these micro firms.

generally and Prato specifically, small businesses provide the majority of textile employment. Table 3.4 below shows that employment in small firms is well above the national average.

Table 3.4
Employees by Firm Size in the Italian Textile Industry

Firm Size (no. of workers)	Area	Province of Florence ⁷⁸		Tuscany		Italy	
		1971	1981	1971	1981	1971	1981
1-9		33.0%	42.5	33.5%	43.6%	15.2%	24.5%
10-49		37.4%	42.0%	33.7%	38.1%	22.3%	24.8%
50-499		26.3%	15.5%	26.1%	16.2%	46.3%	42.9%
over 500		3.0%	--	6.7%	2.1%	16.1%	7.8%

Source: Province of Florence, Dei Ottati (1994, p. 134), Tuscany and Italy, Bellandi (1989).

These small firms in Prato are organized into territorial systems called industrial districts. It is from this productive organization that the economy gains its vitality.⁷⁹ An industrial district is a defined territorial space, usually a

⁷⁸ Prato was included in this province until 1991.

⁷⁹ Not all small firms in Tuscany are found in industrial districts. Rather, as Brusco (1986) points out, there is a category of small, subcontracting firms who are completely dependent on a single large firm for all their contracts. Competition among firms specialized in the same phase of production is especially harsh, allowing large firms to squeeze their profits. Consequently, these small firms must lower wages, evade tax payments, and work long hours. When the economic crisis hit, these dependent subcontracting firms were hard hit but the small firms in industrial districts proved resilient and better able to adapt to changing competitive circumstances. I am grateful to Maria La Falce for reminding me of this distinction.

town or a collection of small towns, with a high concentration of horizontally integrated, highly specialized, autonomous small firms, each representing a single phase of production. These small firms work interactively to produce a wide range of differentiated goods that are sold on customer-oriented, fragmented and varied international markets. The industrial district represents a **unitary productive system** where independent small units are integrated through dense subcontracting networks.

Industrial districts generally arise around traditional, labour-intensive manufacturing sectors, such as textiles, because the production process of these sectors easily subdivides into **multiple phases**. Thus small firms are able to **specialize** in a single phase of production (Scarpitti, 1991a). This specialization allows the system as a whole to invest in new technologies, physically placed in several small firms, that are widely applicable to different products and processes. The **territorial concentration** of these specialized firms, often several thousand of them within the same community, fosters extensive subcontracting networks. These **horizontally-integrated networks** integrate the various phases of production process. Living in the same community and working in the same industry generates a **monocultural** area; this common culture bolsters the cooperative networks among firms. Geographical proximity also allows these firms to successfully follow a just-in-time small-batch work strategy that supports the production of a **wide**

variety of differentiated goods; goods which can be easily and quickly adapted to changes in market demand. Because they adapt easily to changes in demand, these districts are **flexible** which is the competitive advantage behind their success (Brusco, 1982, p.179). Thus this productive organization has been termed **flexible specialization** (Piore and Sabel, 1984).

Industrial districts are characterized by the absence of large dominant firms. Because most subcontractors work for a number of manufacturers, no individual firm can exercise power over them. In fact, often manufacturers refer business to their subcontractors (Lazerson, 1990, pp.118-119). Only a small number of manufacturing firms, however, market the finished products. In Prato, there is the unique figure of the "impannatore" who is responsible for sales and the procurement of national and international orders and for purchasing the raw materials which is distributed to the subcontractors.⁸⁰ The impannatore liaises with the artisan subcontractors who perform many phases of the production process. In Prato, the cycle starts with rag sorters and moves on to carbonizing to warping to weaving and then dying and refinishing. Elements of each of these independent processes can be subcontracted out as well. The start-up costs for a new firm in each individual phase requires limited capital investment which eases the entry and exit of firms. While cooperation among firms in different phases of production is

⁸⁰ This role is also played by partially vertically-integrated woolen mills.

integral to the system, competition among firms specialized in the same productive phase can be quite fierce. This competition stimulates the constant innovation required to maintain their flexibility. Thus, industrial districts thrive on the delicate balancing of cooperation and competition.

Industrial districts have two overlapping mechanisms which maintain this balance. First, economic relations are heavily embedded in dense community-based social networks creating what Dei Ottati (1991) has termed the 'community market'. The joint governance of the economy by the market and the community is the first mechanism and it functions through the integration of the economy with local society. The extended family is an important component to this system, especially for its ability to provide crucial financial and manpower support (Becattini, 1994), and its socialization function which imparts important norms, rules and values important for system maintenance (see section III). The second mechanism is the multiplicity of community and regional institutions that provide a range of services that support small firms. These services include the regulation of the local labour market, the provision of collective goods that small businesses have difficulty obtaining⁸¹, and the allocation of resources in a manner that ensures the industrial sector as

⁸¹ Such goods include but are not limited to: access to easy credit and venture capital, access to high technology, market research and information, provision of necessary infrastructure, and coping with administrative red tape.

a whole benefits (Piore and Sabel, 1984)⁸².

Industrial districts have two other important characteristics which merit attention. First, the labour force includes workers with broad rather than highly specialized skills so they move easily from one type of job to another when changes in demand requires product and/or process differentiation. As a result, few social barriers exist between the entrepreneurs and the skilled workforce (Holmstrom, 1986, p.30). This fluid social structure enhances the flexibility of the productive system. The labour market is self-contained and well-skilled to meet the needs of industry. It was the recognition of the self-contained nature of the labour market within the Prato textile district that was one of the major reasons that Prato was allowed to break away from Florence and become an independent province in 1991 (Sforzi, 1990).

Second, industrial districts are export-oriented and well-integrated into the international economy (Bianchi and Gualtieri, 1991). Prato is particularly dependent on exporting its products. In 1990, 45.6% of Prato's textile products were sold on the Italian market, 41.4% were sold to other European Community Countries, and 13.1% were exported to non-EU countries (UIP mimeo, 1993).

⁸² These services are particularly important for helping to overcome the inherent weaknesses in industrial districts which include a slowness to employ new technologies, a shortage of financial management expertise, a lack of know-how required for conducting basic research, and an inability to generate major technological innovation (Brusco, 1992).

Although strongly influenced by the nature of the international economy given its export dependence, Prato's industrial structure is completely bounded. On one hand, given the small size and interdependence of firms, they are locally dependent. On the other hand, the locus of decision-making is embedded in the industrial system. In other words, economic decentralization parallels the political decentralization of the Italian local system. Therefore policy can directly address firm behaviour in an effective and comprehensive manner. Although the district is export-dependent, the decision-makers are local and thus policies aimed at helping firms restructure will not be impeded by a dependence on firms outside the administrative unit. Regarding boundedness, the textile district corresponds broadly to the province rather than just the city; thus policy must be addressed to this level. Before the awarding of province status, the Prato district was recognized by the Region as a comprensorio (a catchment area to aid economic development planning). As we shall see below and in chapter 5, the incomplete boundedness between city and economy was compensated for by the larger mandate of civic organizations, and cooperative policy measures with other communes. Therefore, we can conclude that Prato is bounded more or less to the province.

Local boundedness and local dependency has been demonstrated. The next step is to briefly review the crisis and examine the impact of these changes on the economic structure; and thus how they might potentially alter the institutional

landscape.

II-B. THE CRISIS AND THE NEED FOR STRUCTURAL ADJUSTMENT

Prato has generally achieved great economic success throughout the post-war period, experiencing uninterrupted economic growth until the 80s (Table 3.2). Due to the flexible and innovative structure of the industrial district, Prato was able to successfully move from price-driven low quality markets in the 40's and 50's toward sophisticated and higher quality markets in the 60s and 70s and has continuously been able to diversify its product line. For example, the decline of the low-cost, low quality sector was successfully redressed by the development of knitwear in the 60s and new fabrics in the 70s. This continual restructuring process had allowed for the growth of employment and new firms. Between 1971 and 1981, textile and clothing employment jumped by 23.7% and knitwear employment increased 8.7% while national knitwear employment declined by 13.5% (Berardi and Romagnoli, 1985).⁸³

In the 1980s, as a result of a number of concurrent factors, a crisis hit the industry. In particular, the 80s was a period of major macroeconomic changes: a decline in world trade, the fall of the dollar and the ensuing reduction of the American market, the restructuring of large firms toward greater

⁸³ Compare this with the UK experience (chapter 4), which shows severe job losses during this same period.

flexibility which allowed them to directly challenge the industrial districts, and changes in the European Monetary System which removed the benefits of flexible exchange rates. This combination of factors provoked the shrinking of small firms profit margins and the spiralling of their debts. A crisis in the local banking system exacerbated these conditions. The local bank, the Cassa di Risparmio of Prato, was saved from bankruptcy by the intervention of The Bank of Italy. As a result, credit was tightened and the lending rates increased (see chapter 5), leading to an overall reduction in the volume of textile production. Simultaneously, labour productivity was also increasing. The coupling of these trends led to a high number of permanent job losses (a 27% drop) and the decline of many firms (4,100 were lost) (Bellandi and Romagnoli, 1994).

Firm strategies for dealing with the crisis have led to fundamental changes in the way the industrial district works. First, the monoculture centred around producing carded fabrics has declined and diversification of the industry has occurred rapidly. Many inputs, such as yarns, which were once produced locally are now imported. Relationships between firms and their subcontractors have changed; relations with the core subcontracting group have tightened while their reliance on looser relationships has declined. Also occurring is the rise of 'groups' which are clusters of firms linked together through common capital holdings. Larger firms have better and more efficiently adapted to these changes and this has brought to the

district a new phenomena; the hierarchicazation of firms (Bruni, 1993). As a result, the number of artisan firms declined by 25% between 1986 and 1990 (Bellandi and Romagnoli, 1993). This trend has continued, with a 7.4% decline in textile craft firms between 1991 and 1992 and a 2.3% decline in clothing and footwear artisan firms (Amministrazione Provinciale Firenze and Irpet, 1993). The predominance of micro-firms, once seen as the foundation of Prato's competitive advantages, is now believed to be an obstacle to growth⁸⁴.

Exports, however, have grown between 1991 and 92, by 3.37% of total provincial exports(*ibid.*) suggesting that the larger firms have weathered the storm. Another interesting pattern is emerging; diversification. Between 1981-92 a 10% change from the manufacturing to service industry has been charted as well as the growth of firms in other industries such as mechanics, chemicals, and commerce (Bruni, 1993).

This transformation of the productive system has two repercussions for the local institutional system. First, it is shifting the balance of power and resources among local actors. In particular, it strengthens the industrialists/employers at the expense of the crafts firms and the employees. Firms are getting larger, subcontracting relations are expanding beyond both local boundaries and national boundaries as more inputs are being imported (i.e. yarn). These fundamental changes in the system of production and the degree of its local boundedness

⁸⁴ All those interviewed shared this view.

will require a concurrent change in the mode of regulation. Such changes, as stressed in chapter one, represent a key test for the learning economy. Let us turn now to examine how society is organized if we are to effectively assess the impact of these economic changes.

III. LOCAL INSTITUTIONS AND INSTITUTIONAL NETWORKS

This section will first draw an map of the private sector institutional architecture (III-A) to assess its local capacity. The second half (III-B) will then look at the results of social network analysis to evaluate the structure and thickness of local institutional networks.

III-A. AN INSTITUTIONAL MAP OF PRATO

The region of Tuscany is endowed with a good social infrastructure for pursuing economic development---a strong civic society. The recent work by Putnam, Leonardi and Nanetti (1993) demonstrates that areas with strong civic traditions and networks of civic engagement are highly correlated with strong institutional and economic performance. In fact, they found that, although a strong economy does not necessarily predict a strong civic culture, a strong civic culture predicts a strong economy. Putnam's study determined that the civic society in Tuscany and therefore Prato was ranked particularly high, thus

predicting economic strength.

According to Putnam, Leonardi and Nanetti (1993), strong civic traditions, characterized by trust, cooperative norms and networks of civic engagement, provide a community with social capital, a resource which facilitates cooperative behaviour among the populace as well as among regional institutions. As social capital can only be accumulated over time, areas with strong civic societies must have a history of civics. Thus, the prospect for successful collective efforts increases in areas with historical precedents and traditions of cooperation. Past examples of successful cooperation provides actors with a "culturally-defined template for future collaboration" (p.174).

Putnam, Leonardi and Nanetti have shown that the civic Italian regions have had such a history of civics dating from medieval times. Thus, social capital in these regions has "long been a key ingredient in the ethos that has sustained economic dynamism and government performance" (p. 170). Trust breeds cooperation and cooperation breeds trust. Thus, social capital, as a community resource, increases with use and, conversely, atrophies with disuse. Those communities, like Prato, which possess it, will therefore be able to exploit it and increase it more easily than those which do not. In fact, work by Dei Ottati (1994) has highlighted that, historically, Prato has been especially rich in this resource and its ability to exploit it. Summing up, norms of cooperation, arising from strong historical traditions of cooperation, and dense political and social

networks are important inputs explaining the historic success of the Prato economy (Dei Ottati, 1994). They should also provide key inputs for supporting the learning required for industrial restructuring. Thus, socially and culturally, the institutional capacity of Prato is quite high.

Trust and social capital are an important component of institutional thickness and these underpin the relations which have developed among the key trade and business associations that have always been key actors in Prato, historically and today. These actors include: UIP (Union of Industrialists in Prato), the CNA, (National Federation of Artisans), CGIA⁸⁵ (Italian General Federation of Artisans), and three trade Unions CGIL (Italian General Confederation of Labour), UIL (Union of Italian Labour), and CISL (Italian Confederation of Workers' Unions).⁸⁶ All these organizations have a joint mandate; to

⁸⁵ CGIA is the peak association. Confartigianato is the provincial association.

⁸⁶ There are also two organizations which represent the Merchants (Confesercenti and Confcommercio) and API, (the Association of Small Enterprises) but they are fairly marginalized within the power structure in Prato. This distribution of power among associations is particular to Prato and may not be the case in other areas. The marginalization of the merchants does not reflect their numbers because there are 6,000 merchant firms of which only around 1,500-2,000 are not members of an association. Rather, it represents the cognitive dominance of the textile industry from the point of view of economic governance (This will be elaborated in chapters 5 and 7). Additionally, although the Florentine Chamber of Commerce is included in the network analysis, it will not be discussed here. Its position in Prato is somewhat ambiguous as Prato is in the process of creating its own provincial Chamber. Additionally, while it plays a major financing role, it is not involved in other important exchanges; hence I will not discuss it in detail in this section.

pursue local industrial relations and to offer local political representation to their members.

The UIP was established by the industrialists in Prato in 1912 in reaction to the local strength of the Chamber of Labour (now the seat of the provincial CGIL) which represented the "point of reference for city life" (Partini, 1992, p. 11). From this period onward, it has continued to develop a range of services that it provides its members including credit, culture, charity, the promotion of professional schools and the diffusion of Prato's products (Patini, 1992). UIP has circa 1,000 members and its territorial mandate covers the 13 municipalities plus Mugello that comprise the Prato textile industry.

Presently located in the Palazzo Industriale, the UIP building houses the UIP, TV Prato which hosts a briefly nightly statement by the UIP, the local office of the Florentine Chamber of Commerce, and a range of business support consortia associated with UIP. The UIP's guiding principles are to safeguard territorial business interests and promote forms of cooperation that favour shared development but respect the independence and interests of the single components. (UIP, 1993, p.2) The UIP is a member of Confindustria, the national federation of Italian businesses, therefore they are also represented by the major industrial associations such as FEDERTESSILE or Laniera. This is structurally quite different from the British case, where the national industrial associations have only direct membership, not territorial

representatives (chapter 4). Although it has always leaned to the centre politically, it has always had good working relationships with the leftist local authorities.

Strong craft associations, which represent the microfirms that have thus far provided the backbone of the local economy, are also important local institutions. Table 3.5 shows the importance of craft organizations to craft firms in Tuscany. The majority of craft firms (76.2%) belong to a craft association. Like the UIP, their territorial mandate is the province. CGIA (Confartigianato in Prato) has 7,000 members and CNA has 6,500 members within the province of Prato⁸⁷.

⁸⁷ This includes all enterprises, not just textiles. Around 60% are textile firms.

Table 3.5
Membership in Italian Craft Organizations (1990)

	Craft Firms as % of Total Firms	CNA Membership	CGIA Membership	% of Craft Firms which are Members of a craft Association ⁸⁸
Tuscany	40.2	48.8	27.4	76.2
North	38.5	16.2	15.9	32.1
Third Italy	41.8	32.2	40.1	72.3
South	35.9	28.7	22.9	51.6
Italy	38.7	25.7	26.3	52

Source: Grote (1992b, p.154) with some elaboration by the author.

Both associations offer a range of crucial services to their members including book-keeping, the preparation of pay packets, income tax declarations, insurance contributions, professional training courses, and credit guarantee consortia which obtain low-interest loans by coordinated credit demands with local banks. Through experience, the association has been able to achieve the expertise of consultants but at far lower prices.

The CNA began as a sectoral federation of the CGIL, but became independent in the 1950's and now its leftist reputation

⁸⁸ This does not include CASA (Confederazione Artigiani Sindacati Autonomi--the Confederation of Independent Artisan Unions), a third craft association because it is quite small in Tuscany representing only 1.4% of crafts firms nor CLAAI (Confederazione Libere Associazioni Artigiane Italiane--Confederation of Free Italian Artisan Associations) which represents only 0.5% of firms in all of Italy.

has dimmed allowing it to become a centre for all artisans. Concurrently, Confartigianato was initially linked to the Christian Democrats. As a result, the organizations are structured differently. The CNA, like the PDS, has a federal structure so that the provincial organizations are shaped by and adhere to the central organization. Within the CNA, there is a high degree of organizational discipline and coherence, allowing for a great capacity for policy-coordination and collective action. CGIA, alternatively, is truly a peak association where the provincial units are highly autonomous from central coordination. It has been suggested that this results in a more localist type attitude and a less developed sense of cooperation (Grote, 1992b) but this has not been substantiated.

Like the business associations, the trade unions have a provincial territorial mandate, thus effectively covering the entire textile industry. So if the public administration has not reflected perfect boundedness with the local industrial system, the business and trade associations have compensated for this lack-of-fit. CGIL is the oldest (established in 1898 as the Chamber of Labour) and strongest union with around 26,000 members (7,500 in the textile industry). Its dominant position within the community comes from the historic relations between CGIL and the PDS. Nationally, the CGIL was viewed as the PDS's transmission belt of party policy, its main source of recruitment (workers comprise 40% of PDS membership) and its training ground. Even if the increasing pressures for joint

union activity and local representation eventually led to its autonomy of action, the high degree of membership overlap and the CGIL-PDS link guaranteed that industrial relations remained the dominant issue on the party policy agenda (Furlong, 1994). The smallest Union, UIL, has 3,500 members but UIL is primarily a public sector, white collar union. It is quite important in areas regarding the public administration but holds little weight in the textile industry. CISL has 11,084 members of which 1,100 are textile workers. UIL is historically linked to the Socialist party and CISL to the Christian Democrats. While these organizations have delinked themselves from the party structure, the membership between the organizations and their former party patrons still overlap extensively. For many years now, the three trade unions have tended to act in concert given the high degree of shared interests, once the party connections loosened. There is even some discussion of eventually establishing some form of unitary structure (Grote, 1992b).

Their cooperative stance is not always reflected among the other local associations. The structure of organized interests found in Prato, according to Grote (1992b), exemplifies pluralist interest intermediation because a number of politically-diverse associations compete for voluntary membership and state recognition in order to take advantage of available grants and services. Despite a cooperative culture, this competition can at times be an obstacle to collective action and policy coordination.

While many observers have argued that the overall climate of cooperation has been an integral component to successful system governance (Bellandi and Romagnoli, 1994, Trigilia, 1989a), the degree of conflict is also an equally necessary component that should not be overlooked. One respondent stressed:

There does not exist a fine line between collaboration and conflict....Because we maintain that while collaboration is important for the development of the community, conflict is also important because the interests are diverse.⁸⁹

Balancing competition and cooperation is, therefore, the main tension within Prato's local governance structures which have historically, coalesced around industrial relations. Over the years, these associations have put together a substantial number of joint agreements among actors in different areas of work relations (Bellandi and Romagnoli, 1994, Trigilia, 1989a)⁹⁰. Figure 3.2 shows the number of agreements concluded.⁹¹ The 70s were a particularly busy time. Sixteen agreements were successfully concluded, more than any other period.

The economic crisis and the concurrent changes in the

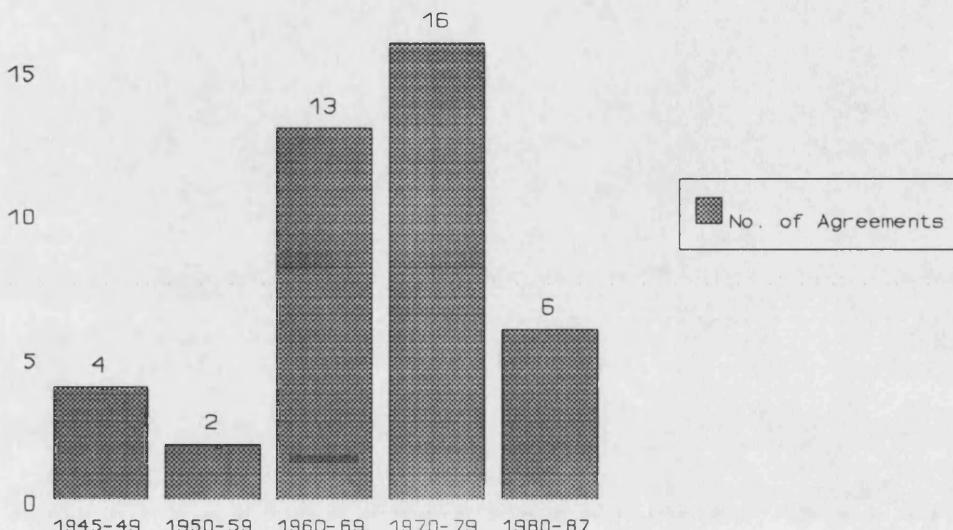
⁸⁹ Interview 9.

⁹⁰ Of particular importance within these negotiations was the understanding between these associations that work hours were not to be regulated because they represented the foundation stone of the district's flexibility, thus its prosperity.

⁹¹ In addition to these relationships, there are also strong contractual relations between the unions and individual firms (ranging in the 100s), which have strengthened the overall culture of cooperation (Trigilia, 1989a, p.310).

Territorial Agreements Between the UIP and the Trade Unions, 1945-1987

2



Source: Trigilia (1989a, p.310).

Figure 3.2

associations membership and resources have led to changes in nature the industrial relations system as well (Trigilia, 1989a). It too is in a process of transition. Whereas we could easily conclude that the industrial relations system represented a tight policy community including primarily the UIP, the trade unions and the city of Prato as mediator, the tightness of this relationship is starting to break down as the need to manage a wider range of issues spurs a drive for new partners and new relations. Since social network analysis was conducted on information gathered in 1993, it will reflect both these changes. Let us now examine Prato's institutional networks.

III-B. INSTITUTIONAL NETWORKS IN PRATO

This section assesses the structure of local institutional networks using social network analysis. To reiterate, SNA can measure the degree of institutional thickness (density), determine the central actors (centralization), and identify network structures (structural equivalence measures), and finally graph the network structure to assess the potential of these networks for promoting innovation, information exchange and collective action. Fourteen actors were entered into the matrix: three levels of local government (Tuscany, Prato, Intercommunal Association), the UIP, the two craft organizations, three trade unions, the local bank (Cassa di Risparmio di Prato), the Florentine Chamber of Commerce, one merchants association, the small business association (API) and the University of Florence. Network density was found to be extremely high .83 out of a possible 1, indicating almost all the actors are linked to each other. Thus, Prato has very dense networks comprised predominantly of strong rather than loose ties. Such dense ties suggest an institutionally thick economy.

Table 3.6
Centrality Measures of Exchange Networks in Prato

<u>ACTOR</u>	<u>CENTRALITY</u>
City of Prato	100.00
UIP	100.00
CNA	100.00
Confartigianato	100.00
Region of Tuscany	100.00
Intercommunal Association	100.00
Chamber of Commerce (Florence)	81.25
University of Florence	81.25
CGIL	76.47
CISL	76.47
UIL	76.47
Confesercenti	76.47
Cassa di Risparmio	76.47
API	76.47
Total Network Centralization	28.6

Complementing the density measure is the measure of centralization (table 3.6). Density refers to network cohesion while centralization refers to degree to which this cohesion is organized around specific prominent points; those actors with the greatest number of linkages (Scott, 1992). Network centralization was found to be 28.6% which is quite low demonstrating a horizontal rather than vertical, hierarchical relations among the actors because most actors are similarly connected. Since the majority of points are interconnected, no actor can exploit her position as broker among any other. Thus, power is fairly equally dispersed among the range of local actors. Additionally, the scope for shifting alliances is ever present given the high degree of familiarity within the community.

Although the results indicate a more egalitarian structure,

an analysis of the individual centralization measures for each actor (table 3.6) will demonstrate that certain actors do hold a more prominent place than others. Clearly, the network centre is comprised of all the local authorities, the UIP and the craft associations. This subset of actors represents the base of the community power structure. The sharing of power and the central positions of collective private as well as public actors suggests a strong potential for private as well as public leadership in spearheading local initiatives and devising local support structures. These results also underscore the importance of intergovernmental networks as key channels of critical resources as they too are central actors.

Regarding these results, however, certain caveats should be made. First, the Intercommunal Association has minimal powers at present, so while it does interact with all actors given its public position and its key role as the authority responsible for vocational and professional training, it is still highly undeveloped as an institution and local actor. Thus, its centrality represents only a potential asset for the future; it has not yet matured. Second, the position of the University is a new phenomenon, representing attempts to break out of the constricting tightness of local links, and bring in new ideas and competences required to meet changing conditions. In other words, it is a step taken to manage structural adjustment and represents an important learning response. At the time of the research, the University and the Prato institutions were in the

process of setting up an engineering faculty in the city. As a result, the relationships among the actors were quite intense. However, this has not been the case in the past, thus the University cannot be said to be central throughout the period of this study. Rather, this activity was an attempt to overcome a past weakness in the industrial structure---a weakness of business-university linkages and difficulty stimulating major technological innovations. Finally, the centralization scores may overestimate the position of such groups as API and Confesercenti. While these groups are linked to all others given party ties, cultural habits of cooperation, and the small size of the city, they are often marginalized when it comes to their influence on the policy process while the trade unions are not (see chapter 5).

Some of the points brought out in the analysis of centrality can be enriched by looking at an assessment of structural equivalence. Structural equivalence identifies common social positions among actors with respect to their relational linkages (Scott, 1992). The results are most easily analyzed within a block model (Figure 3.3)

Figure 3.3
 Structural Equivalence of Network Actors in Prato
 A Block Model

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	I I N G R U	O H P A	I G N I																		
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	Y A V C	F M S	L V L																		
		I A E B A	E																		
		N N S E	R																		
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BLOCK THREE	UIL CGIL UNIVERSITY CISL	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>1 1 1 1 1 1</td><td></td><td>1 1 1 1</td></tr> <tr> <td>1 1 1 1 1 1</td><td></td><td>1 1 1 1</td></tr> <tr> <td>1 1 1 1 1 1</td><td>1</td><td>1 1 1 1</td></tr> <tr> <td>1 1 1 1 1 1</td><td></td><td>1 1 1 1</td></tr> </table>	1 1 1 1 1 1		1 1 1 1	1 1 1 1 1 1		1 1 1 1	1 1 1 1 1 1	1	1 1 1 1	1 1 1 1 1 1		1 1 1 1							
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Figure 3.3 displays three blocks of actors and their interrelationships. The block matrix demonstrates that block 1 actors are completely connected to all other blocks, but blocks 2 and 3 are weakly connected to each other. While these actors will all have some contact with each other, their interrelationships have not been deemed to be key points of information exchange or bilateral collective action.

Block 1 holds those actors that were determined earlier to be most central (public authorities, UIP, CNA and Confartigianato). Any actor within this group has the potential to provide leadership to the community. They are structurally

equivalent because each actor in this group has strong, regular and historic institutional linkages to all other actors in the community.

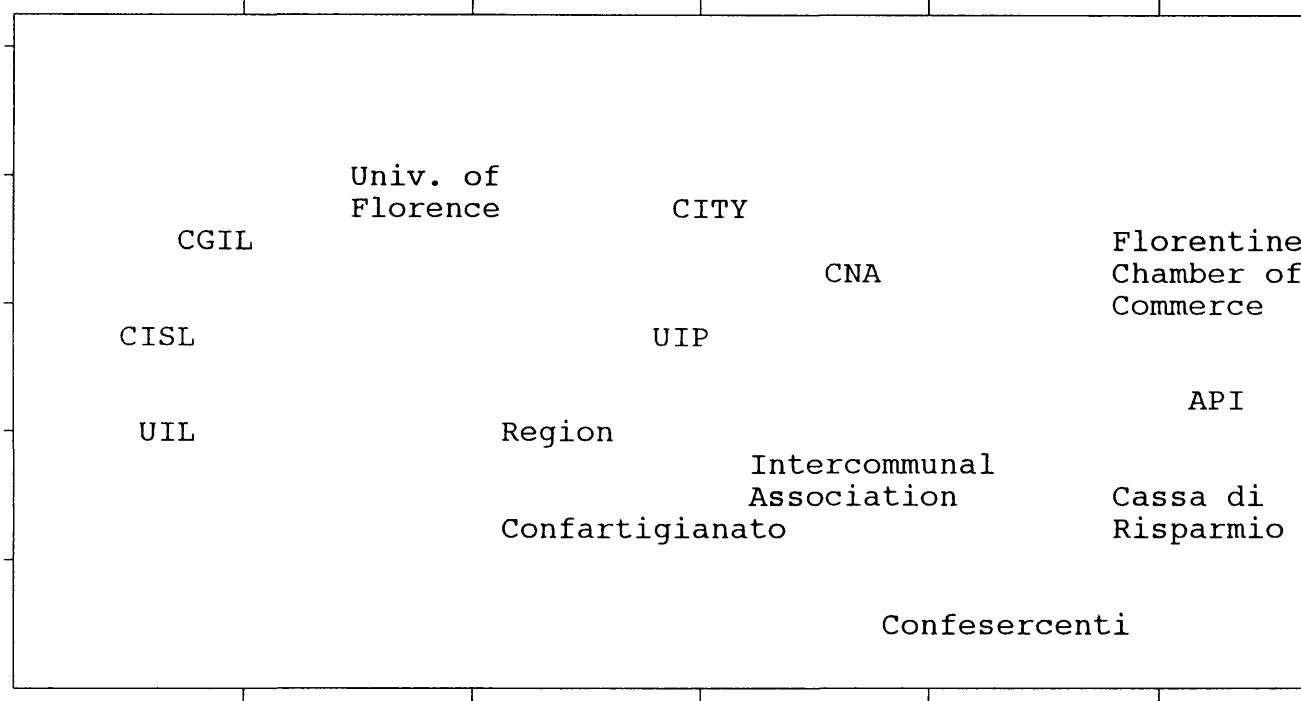
Block 3 holds the trade unions and the University of Florence. Their structural similarity emerges from their particular importance within certain policy domains; labour relations for the unions, technological innovation for the University. The equivalence demonstrates the growing importance of technological innovation as a necessary input to the system which had once centred on industrial relations. While these groups are not substitutable as structural equivalence implies, they are both critical actors in the question of economic governance. Although the trade unions have a more highly developed position given their historical prominence while the University is a relatively new actor, I would hypothesize that the increasing stress on technological innovation as a key building block for economic success will help to cement the University in a position equivalent to the trade unions. I believe that this technique, by clustering the University with the Unions, paints a more accurate picture of network relations than the centrality scores which determined the University to be more central. Rather, they are both central actors but with more a more limited policy mandate than those actors in block 1.

Finally, Block 2 includes all other actors. These actors are all important within their individual policy domain but they are generally limited to those issues rather than general local

governance concerns. Again, the block model compensates for certain problems with the centrality scores. For example, the Chamber of Commerce scored as more central than the unions. Although Chambers are public law chambers thus all firms are required to register with them giving them ample organizational, legal and financial resources, the activities of the Florentine Chamber of Commerce tends to restrict itself to financing business support policies. While it has been a critical participant from a financial point of view in certain policy areas, it is not more central than the trade unions regarding the long-term governance of the Prato textile industry. Additionally, the model separates API and Confesercenti from the trade unions when the centrality measures lumped them together. API and Confesercenti are somewhat marginalized in the political sphere as we shall see in chapter 5 while the trade unions have been central actors within key governance domains.

Finally, figure 3.4 graphically depicts Prato's institutional networks using multidimensional scaling techniques. The graph centre includes the six principal actors identified throughout our analysis (City, Region, Intercommunal Association, UIP, and the craft associations). At the left of the graph, the network would expand to include the actors important for industrial relations and training (trade unions). To the right of the graph the actors involved in business support and industrial diversification (Chamber of Commerce, University, Merchants) are located. These diverse policy domains

Figure 3.4
Institutional Networks in Prato



are linked through the central community network as the graph clearly demonstrates. The significance of these institutional networks is that they "reconcile, in a particular way, the fractures and opposing positions of the various actors that operate internally in the district" (Balestri, 1990, p.27). To summarize, this section has demonstrated that Prato is comprised of thick institutional networks which augurs well for its ability to act promptly and judiciously in response to industrial decline. However, the tightness rather than the looseness of the ties could serve as an impediment to adaptability, especially regarding learning capacity.

In conclusion, this chapter has shown that Prato has certain important institutional building blocks for managing structural adjustment. These include spending autonomy, congenial regional-local relations, a well-trained elected political class, a bounded and locally dependent economy, strong collective associations, and well-developed dense institutional networks with historically shaped habits of collaboration. On the negative side, it is hampered by an inefficient bureaucracy, a lack of important looser network ties which can link the community into broader networks which are crucial for technology and innovation transfer, and the power relations among these networks are restructuring in parallel to the economic restructuring process which will present clear challenges to the learning process. Chapter 5 will assess the degree to which Prato was able to exploit these advantages and overcome the

disadvantages to successfully manage industrial restructuring.

4. THE POLICY ENVIRONMENT IN NOTTINGHAM: CONSTRAINTS ON LOCAL CAPACITY

INTRODUCTION

This chapter is structurally analogous to chapter three. It draws an institutional map of Nottingham to identify and assess the policy environment of the local system of economic governance. It is similarly divided into three sections: state structure, industrial structure and the networks which integrate them.

I. STATE STRUCTURE

This section looks at the two relationships which shape the institutional capacity of local authorities: the division of power between different levels of the State (I-A) and the nature of the local political elite (I-B). Finally, I-C looks at the details specific to Nottingham.

I-A. DISTRIBUTION OF POWERS AND INTERGOVERNMENTAL RELATIONS IN THE UK

The English⁹² subnational government system is organized

⁹² This does not cover the entire British local government structure. Scotland, Wales and Northern Ireland have separate systems. In metropolitan districts (including London Boroughs) there is only one tier of government. There is also a parish council just below the district with minimal powers and functions. Currently, a Local Government Commission is reviewing the situation of English local authorities with a view to

around three tiers: district councils, county councils, and the regional branches of central government departments⁹³. Traditionally, the territorial distribution of power in England has been characterized as that of a dual polity; one in which functions are clearly separated between central and local government (Bulpitt, 1983). The centre concentrated on high politics which includes defense, foreign policy, and macroeconomic policy, while the local authorities administered low politics which covers the provision of local services (Goldsmith and Page, 1987). Currently, county councils are responsible for education, personal social services, strategic planning, police, fire, highways, libraries and refuse disposal. District councils care for local planning, environmental health, housing, recreation, public transport, cemeteries, and refuse collection⁹⁴. In economic development, all three levels of government have policy competence and this represents an overlapping and potentially competitive

establishing single-tiered government. The Commission's review is still in progress and thus the divided structure of local governance still pertains.

⁹³ Three Ministries have traditionally taken the main role in economic development: the Department of Trade and Industry (DTI) which covers regional policy and industrial development; the Department of the Environment (DOE) which administers land use planning, local finances, and urban development policies; and the Department of Employment (DE) which oversees national training and unemployment programmes. Additionally, the Department of Education and Science (DES) and the Department of Transport can impact local development but in narrower policy domains. Recently, the government has merged the regional offices of the DTI, the DOE, the DE, and the Department of Transport into a single Regional Office. As it occurred after the research was conducted, it does not enter into this analysis.

⁹⁴ In actual practice, the division of powers is not quite as clear cut as it seems.

functional area.

Regarding economic development, local authorities have always had some legal resources to operate in this area. Until 1989 powers to act came from section 137 of The Local Government Act of 1972. Section 137(4) gave local government power to incur expenditure, not to exceed the product of a rate of 2 pence (or some other amount fixed by the Secretary of State) for their area for the year for activities the local authorities believed to be in the best interest of its locality or its constituency.

However, in 1989, the new Local Government and Housing Act substituted section 137(1) with part III which entails 'Economic Development and Discretionary Expenditure by Local Authorities'. Section 33(1) affirms that all authorities can take relevant steps to promote the economic development of their locality. Section 33(2), however, classifies the activities in which local authorities can participate⁹⁵ while sections 34 and 35 require central government's approval on the use of certain powers described in the regulations. In particular, the Secretary of State has the ability to impose conditions, restrictions, and financial limits, while economic development plans must be made available to bodies representing commercial and industrial undertakings, persons carrying on commercial, industrial and public undertakings and anyone else considered desirable.

⁹⁵ These activities include the participation in and promotion of financial and other assistance opportunities for the setting up or expansion of commercial, industrial or public endeavours within the locality or activities which promise the creation and/or protection of employment opportunities.

Under the Local Government Act of 1972, local authorities had entered four main areas of activity; property development, infrastructure and environmental improvement, training, and direct support to the private sector (Bennett and Krebs, 1991). The 1989 Local Government and Housing Act reforms offered both increased opportunities and increased restraints for local authority development strategies. In particular, the restrictions spelled out in the reform will prohibit some of the earlier local government strategies and reduce the overall scope of policies in order to prevent local government from intervening in areas the Government believe the market is better suited to handle⁹⁶. To try and enforce market discipline, the government has required greater private sector participation in local economic development and has set up a large number of new public/private institutions (known as Quangos) in the last several years to do just that leading to complex, fragmented, patchy and unfocused networks of economic development institutions (Bennett and McCoshan, 1993).

Oddly enough, despite all the encroachment on local authority powers which have occurred over the past decade (see below), this is one area where, from a strictly legal perspective, local authority powers, which previously had a tenuous legal base, have now been sanctioned and legally safeguarded. Conversely, by framing those powers in precise legal terms, what is and is not possible and requiring

⁹⁶ The key restrictions pertain to wage subsidies, loans and grants (which must reflect market costs) and the exclusion of local authorities from banking, investment banking, media, manufacturing, estate agency and other professional and trading services (Bennett and Krebs, 1991, p. 48).

government approval for many initiatives, strong limits have been put on the types of activities that can be pursued.

Without a written Constitution, UK local authorities are subject to the constraints that emerge from the doctrine of ultra vires. This doctrine states that local government can only undertake activities designated to them by the centre which the centre can change at any time. However, since the UK central government depends upon local government to administer a range of services, local authorities have been able develop some degree of discretion, knowledge and expertise in their allotted policy areas. The degree of local discretion can be enhanced by three characteristics of the english system (Goldsmith and Page, 1987, p.72). First, local authorities can pursue their own strategies within permissive legislation or legislation that leaves open room for individual interpretation. Second, the lack of any sophisticated enforcement on the part of the central government allows scope for some independent action. The regional offices tend to serve as gatekeepers between the centre and locality rather than as enforcement officers. Third, until 1979, local authorities have had ample range for raising local revenue. The extent of local discretion has eroded greatly under Conservative rule.

In 1979, when the Conservative government returned to power under Mrs. Thatcher, central-local relations have been radically altered. Where the separate policy spheres fostered by the dual polity allowed for relatively harmonious central-local relations, the reforms to which English local government

has been subject over the past decade have had a distinct centralizing effect and, consequently, have politicized that relationship to one of tension and conflict as local power has been continuously eroded (Crouch and Marquand, 1989). The degree of control the central state has over local government policies has become the key issue in British intergovernmental relations and this conflict has crystallized in two areas; local finances and local government reorganization.

Looking at local finances⁹⁷, successive Conservative governments have attempted to centralize control over local government and local expenditure by enforcing fiscal austerity⁹⁸; making local authorities spend less by altering the general system of finance. Local spending needs would be assessed through a centralized process known as the grant-related expenditure assessment (GREs). Following this, the centre then established a number of targets and penalties; if spending targets were surpassed, central grants would be cut⁹⁹. When these methods did not decrease spending to the government's satisfaction, the 1984 Rates Act gave the Secretary of the Environment the ability to limit the rates

⁹⁷ This and the following discussion on local government reorganization paraphrases from Stoker (1991).

⁹⁸ In actuality, the first attempts to control local government spending began in the 1970s under the Labour government as a response to the economic ills of the period. Labour's approach, however, was to pursue spending cuts through consultation and compromise. The 1979 Thatcher victory saw a continuation of that policy objective but not of Labour's more consensual style.

⁹⁹ Although local authorities have taxing powers, tax revenues only partially cover expenditures forcing most authorities to rely on central grants as well.

(local government taxes) of a list of named authorities; known as rate-capping.

Despite these efforts to cut spending between 1979 and 1987, success was limited. Not giving up, a new strategy had to be found and, indeed, it was; tax reform became the new way forward. The rates, which were basically a property tax, were to be replaced by the community charge or poll tax to be levied on all individuals. Additionally, a new system of government support would be instituted which replaced block grants with the Revenue Support Grant (RSG) which was based on State spending assessments (SSAs) and organized around particular service blocks. SSAs would be determined individually for each authority by the centre according to a formula containing physical, social and demographic characteristics as well as relevant costs. Stoker (1991) noted that it is the SSA's, rather than spending powers that presently determine local authority tax decisions. In addition, the 1988 Local Government Act allowed the government to cap local authority budgets directly.

The poll tax proved to be politically charged. General rebellion by both the populace as well as local government authorities regarding this regressive form of taxation led to a major defeat for the Conservative government in the spending battles. The poll tax was removed under John Major and has since been replaced with the council tax, which combines both a property and head tax.

The Conservative's campaign against local authorities has not been limited to financial reform; privatization measures

were also vigorously pursued. These measures were aimed at undermining the coalition of local politicians, professionals, manual workers and their unions which have been the backbone of anti-government resistance throughout the 80s turbulence (Pickvance, 1990, p.18). These policies included: the sale of local authority assets, the introduction of market discipline into service delivery through deregulation and competitive tendering, and the encouragement of greater private sector participation in the meeting of public goals especially in the economic development field. Such activities have also increased the complexity of the local institutional landscape; at times instigating turf battles among local actors as they fight to redefine their role within an increasingly crowded environment.

The most recent attempt, the creation of the local Government Commission to restructure the presently two-tiered system into a single-tiered local government system is the latest central initiative to control local government spending as well as generally restructure Britain¹⁰⁰. The Local Government Commission's decisions have run into trouble of late as Tory backbenchers have threatened to oppose the government's plan and a recent High Court decision judged that the government cannot insist on abolishing county councils except in exceptional cases (Financial Times, 31 January

¹⁰⁰ Stoker (1991, p.150) argues that many of Conservative policy's, beside trying to cut spending and weaken the Labour party, were aimed at meeting what they believed were the necessary changes required for British economy and society; building enterprise, changing the welfare system to a two-tiered system, and making more flexible economic structures.

1994).

The tumult of central-local relations over the past decade has set severe constraints on the institutional capacity of local authorities. Since sharp restrictions have been put on local spending, it follows that local authorities must rely increasingly on the other policy tools and/or adapt their policies to central government criteria, which naturally leads to a decrease of local discretion in the design and implementation of policy. Loss of discretion can make it difficult to build links into the Community; given that power is placed in the central government, it makes more sense to invest political resources in relations with the Centre than with the locality. Consequently, local government authority has been weakened as the central government has successfully learned to by-pass it. For example, the centre has often granted appeals to private developers, which undermines local authorities' ability to use their planning powers to control development. This situation can force local authorities into competition with other local economic development agents, thus dividing local resources rather than integrating them, as networks would do. Additionally, it undermines the remaining policy tools left to local authorities that could have replaced their loss of financial freedom. As a result, the main tool left to local authorities is its nodality; its position in the centre of the myriad of information networks that make up the policy environment. Thus, English local authorities now rely, more than ever, on their ability to build, coordinate and integrate a variety of networks; to pool

resources, information, and actors to meet common objectives.

I-B. THE LOCAL POLITICAL ELITE: PROFESSIONS AND PARTIES

British subnational government is elected according to a simple two-party¹⁰¹ majority system which can allow for dramatic swings between parties. It is not uncommon, however, for a single party to maintain long-term electoral dominance in certain areas. Once elected, the council selects a chairperson (Chairman, Mayor, Lord Mayor depending on the type of authority) but the prime leadership responsibility is vested in the leader of the majority party. Many authorities also have a chief executive, a professional civil servant who oversees the implementation of council policy. Understanding the structure of power within English local authorities requires a comprehension of two features, the strength of the professions within the public administration, and the role of local parties. Each will be examined briefly.

During the post-war period, trained professional officers working within local authorities gained a high degree of influence over the policy and service delivery process. Although they provided a high degree of expertise, skill, and motivation to their job, during the heyday of their influence, the 1960s and 1970s, their decisions were almost uncontestable by both the elected representatives and the local community.

Gyford et. al (1989) note:

¹⁰¹ There is a small third party, the Liberal Democrats, which has managed to build up a loyal constituency in several geographic areas.

The conviction with which the professionals concerned -- the engineer, the architect, the planner, the environmental health officer, the housing manager -- advocated their solutions, the apparent technical rationality of what they proposed, and the usually unqualified support from central government generated an impetus and subsequently a momentum which it was difficult to challenge. The role of the leading councillors, of whatever party, seemed to consist largely of legitimizing the recommendations of their professional advisors, making public pronouncements which extolled the virtues of what was being proposed, and the taking credit for the physical artifacts which in due course appeared (p. 101).

Along with the technocratic expertise they brought to their job, the influence of the senior officers was enhanced by their position of intermediary between local elected representatives and the local administration and between the local and central authority. Rather than being coordinated through party channels as in the case of Italy, central-local relations crystallized around professional bureaucratic networks (Rhodes, 1985, 1988, Goldsmith and Page, 1987). Given the division of functions between central and local government established by the dual polity, there was little need for elected representatives to foster close party political contacts with the centre because party linkages did not provide either alternative resources or useful channels of influence (Goldsmith and Page, 1987, pp.79-80). Consequently, local party strategies have been subordinated to national ones while Westminster and Whitehall have had little direct contact with local governments¹⁰². Hence, the professions, networked

¹⁰² Neither were local politics used as a training ground for national politicians. Research by Rush discovered that the percentage of local councillors selected as candidates for national election in all parties was 25% or less (cited in Goldsmith and Page, 1987, p.83).

nationally through professional associations, had played the brokerage role between central and local authorities. Finally, their 'expert' mentality can function as barrier to ideas emerging from external sources and the participation of community agents.

Over the past decade, the influence of professional officers has been challenged by five concurrent trends (Gyford, et. al., 1989): i) public scepticism regarding professional solutions; ii) the erosion of separate professional domains, with economic development being a particular case in point; iii) reduced professional problem-solving capacity, i.e. the severity of urban problems; iv) the politicalization of local politics (see below); and v) increasing problems of staff management and motivation especially as resources are increasingly cut. Although these trends have weakened the role of the professionals, as they are now open to successful public and private challenge, they have not been unseated. Rather these changes have lead to a reshuffling of the status of different chief officers. For example, education and social services, plagued with a range of performance failures and the privatization of many of their services, have been seriously destabilized while the position of economic development officers has been enhanced as development problems grow (*ibid*).

Concurrent to the changes in the role of the professions, the activities of local parties have been in transformation as well. As noted above, central-local relations had traditionally revolved around bureaucratic channels. Recently,

in response to the centralizing policies of the Conservative government, local authorities, political parties in particular, have been entering into the political fray¹⁰³. The clashes over spending limits and the malaise in the economy, which placed additional burdens on local government, politicized local government more than it has been in the past. This situation has strengthened the questioning of the role of the professionals and thus opened up space for greater activity on the part of councillors (Stoker, 1991).

Politicalization has splintered both parties into traditional factions and reforming factions, armed with different policy agendas and work methods with important implications for network-building. The local Conservative party has broken down into three groupings (Stoker, 1991). The traditionalists are marked by a strong localist tradition, a resentment of central intervention and hands-off approach to governance thus continue to rely heavily on the professionals. The suburban managerialists have taken an active, hands-on approach in the running of local councils and a more corporatist approach to management. The urban ideologues have embraced the extremist ideology of the new right and view the role of local authorities as limited only to correcting market failure; they are suspicious of the more interventionist

¹⁰³ This is not to say that there were not already trends toward politicalization of local authorities earlier than the 1980s. For the purposes of this thesis, however, these were the key years, because the politicalization of certain authorities led to a higher degree of economic interventionism than previously seen at a local level (See below). See Gyford et al. (1989) for an historical discussion of the politicalization of local authorities.

professionals.

Divisions in the local Labour party are also manifest (*ibid.*). The traditionalists are committed to a policy of high spending on a range of quality local social services and still rely heavily on professional expertise for service delivery. The urban left concentrates on opening up politics to the public, which often means by-passing or changing the role of the officers. This group, the most politicized of all factions, led the fight against the centralizing policies of the ruling Conservative party (Lansley et al., 1989). Furthermore, the locality, being the Labour party's remaining power base since 1979, was seen as the obvious laboratory for testing new ideas of economic interventionism. The Government response to the urban left was to disband, in 1986, their most vocal and active representatives, the Greater London Council and six Metropolitan Councils, on the grounds that they were economically expensive and wasteful.

Although the Urban left was mainly defeated by the end of the 80s (see Lansley et al., 1989), it did leave an influential legacy. Community links were forged and many of the more interesting activities in field of local economic development were promoted. These initiatives were to offer the UK a new approach to economic policy-making that was decentralized, accountable to the community and sensitive to local needs (Totterdill, 1989). From this legacy a third local Labour party group emerged, the urban managerialists who accept the urban left's general views regarding the purpose of local government but support a more moderate political agenda

(Stoker, 1991).

Clearly, the stance taken by the local authorities will influence the policies they pursue, their specific relationship with central government, the officer-councillor relationship, and their connections with the private and voluntary sectors. Let us turn now to look at the situation in Nottingham.

I-C. NOTTINGHAM

Nottingham is the capital city of the East Midlands. With a population of 644,000, it comprises 63% of Nottinghamshire county inhabitants (1,016,000) and 16% of the regional population (4,025,700) (Nottingham County Council, 1991). Both Nottingham and Nottinghamshire, located in the historic industrial heartland, have been Labour-held councils although there has been the odd swing to the Conservative party (Table 4.1). Notably, there has been a greater degree of fluctuation at the national level with the Conservative Party holding the majority of seats throughout most of the 1980s (1983-1992), indicating a potential ally in the Government in terms of allocating resources, even though the city and county councils were run primarily by the opposition party¹⁰⁴. As we shall see, Nottingham has been a large recipient of central development funds (chapter 6).

¹⁰⁴ The party split between local and national elections is the result of the redistricting of Parliamentary constituencies which favoured Conservative party supporters.

Table 4.1
Elections In Nottingham and Nottinghamshire

Year and Constituency	Labour	Conservative	Other
NOTTINGHAM CITY COUNCIL			
1976	14	40	1
1979	31	24	-
1983	28	27	-
1987 ¹⁰⁵	26	28	1
1991	37	17	1
NOTTS COUNTY COUNCIL ¹⁰⁶			
1973	54	36	-
1977	20	66	3
1981	33	28	1
1985	31	31	-
1989	49	34	3
1993	59	23	6
PARLIAMENTARY SEATS			
1974	3	-	-
1979	3	-	-
1983	-	3	-
1987	1	2	-
1992	3	-	-

Source: Nottingham Evening Post, The Times, various years.

Local efforts to resolve the economic problems besetting the city, although interventionist, are best classified as urban managerialist rather than the more rebellious, more

¹⁰⁵ Labour won a 1988 bi-election making the division 27 to 27. With the one Communist member, Labour effectively regained leadership.

¹⁰⁶ Discrepancies in total figures results from a change in the way votes were counted between 1977 and 1981.

directly conflictual urban left. Although their development initiatives, especially in the early 1980s, generally followed a restructuring for labour philosophy, they made sure to gain the approval of the DOE for their policies, respected the spending requirements, and involved the private sector in many initiatives. Neither Nottingham nor Nottinghamshire, for example, have ever been a capped authority.

Reflecting this pragmatic approach to policy-making, there have been many areas of genuine agreement between the local parties and between the public and private sectors in Nottingham and Nottinghamshire. Referring to the city, one respondent described Nottingham as:

...a modern, go-ahead pragmatic place where you can come and sit down, discuss ideas, deal in a business-like fashion without the politicians carrying any ideological baggage around with them. Because of that...we've had a good, healthy positive image for the city, internally and externally, and its undoubtedly assisted in people making their investment decisions to come to Nottingham.¹⁰⁷

Discussing Nottinghamshire County Council, another respondent noted, "We are a pragmatic authority. There is no entrenched ideology, either right or left. We can get agreement on a situation."¹⁰⁸ Therefore, the activities of both authorities, although at times highly innovative and arguably interventionist, have generally taken a pragmatic character; working between parties and with the private sector in order to accomplish mutual objectives.

Equally, good working relations developed between

¹⁰⁷ Interview 21.

¹⁰⁸ Interview 24.

councillors and the professional officers, even as councillors increased their involvement in development-related activities. Although there was some indication of interdepartmental conflict between the planning and economic development departments in Nottingham City Council (chapter 6), they were being reorganized into a single department at the time of the research.

Relations between the city and the county, however, have been fraught with conflict and tension. One observer noted, "They fight like cats and dogs,"¹⁰⁹ a situation which has been exacerbated by the activities of the Local Government Commission as each authority was out to demonstrate why it should be maintained. Consequently, economic development policy has often been competitive rather than complementary culminating in the extreme action of setting up of two different offices in Brussels (chapter 7). Such uncomfortable relations has promoted a dispersion rather than the integration of area resources; diminishing the overall potential of policy initiatives.

Alternatively, local-central relations are more ambiguous. On one hand, central policies generally and within the East Midlands have often undermined many of Nottingham city's strategies toward the textile sector (chapter 6). "The DOE has not been generally supportive of the [textile] industry¹¹⁰." On the other hand, most of the finances for economic development comes from central funding regimes

¹⁰⁹ Interview 19.

¹¹⁰ Interview 27.

including the Urban Programme and City Challenge I (chapter 6). The view from the top notes:

Relationships with local authorities are particularly good on grant regimes when we have money for them. There has always been central-local problems. On the funding side, we are both working towards the same aims. Sometimes we have to say unpleasant things like no but I think its a very good working relationship¹¹¹.

The view from the bottom-up recognizes a need for pragmatism, for good working relations with the centre:

You have got to have the government department on your side all the time. You have to talk to them and keep them informed when you are doing things like this because they are a fundamental part of the whole business. We have done that to date¹¹².

Thus Nottingham has been shown to be a left-leaning but pragmatic authority, open to private partnerships, but marred by conflict with the County authorities.

Section I has shown that local authorities have been consistently subjugated to a barrage of central policies which have left it weakened of resources, and put in an environment which encourages competition rather than cooperation between city and county. Dependence on the centre for development resources chains local authorities to a choice of policy solutions that can meet the criteria set by funding providers, usually the central government, rather than an objective assessment of local need. Although the tradition of professional strength within english local authority has

¹¹¹ Interview 40.

¹¹² Interview 20.

provided them with a well-trained, expert staff and the technocratic capacity to provide policy leadership, current changes in the structure and management of local authorities may be having a demoralizing effect on staff motivation. In fact, the pragmatism of Nottingham authorities may actually represent a learning response to this structural environment. Chapters five and eight will look at this more fully. We turn to look at the structure of the local textile industry and its influence on local capacity.

II. INDUSTRIAL STRUCTURE

This section examines three issues: the structure of the textile and clothing industry, the changes it has undergone, and the degree to which the industrial structure in Nottingham is bounded to the local polity.

II-A. The UK TEXTILE AND CLOTHING INDUSTRY

Despite great upheavals, the British textile and clothing industry still remains an important manufacturing sector although it is concentrated only within a few regions. The East Midlands, in particular, provides home to the highest proportion (Figure 4.1) of UK textile and clothing employment (23%), and the knitting industry more generally

(66%)¹¹³. Furthermore, of all British regions, the East Midlands also has the highest dependence on textile and clothing employment (22%) as a percentage of total manufacturing employment¹¹⁴. Within the

East Midlands, the industry is concentrated in the Derbyshire-Nottinghamshire area (LATC, 1992, Section 6.2).

Looking specifically at Nottinghamshire's economy, there is a significant manufacturing presence, 41.6% of total employment (Nottinghamshire County Council, 1991). Within the manufacturing sector

(figure 4.2), three sectors dominate: textile, clothing and footwear (32%), mining (28%), and engineering (22%). Given its relatively high dependence on these three industrial sectors, the economy has been especially vulnerable to

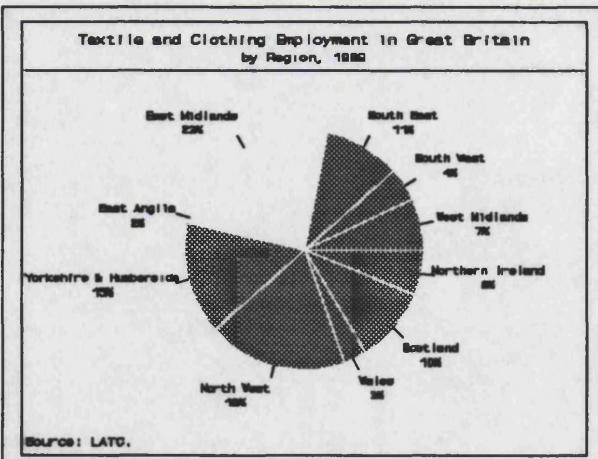


Figure 4.1

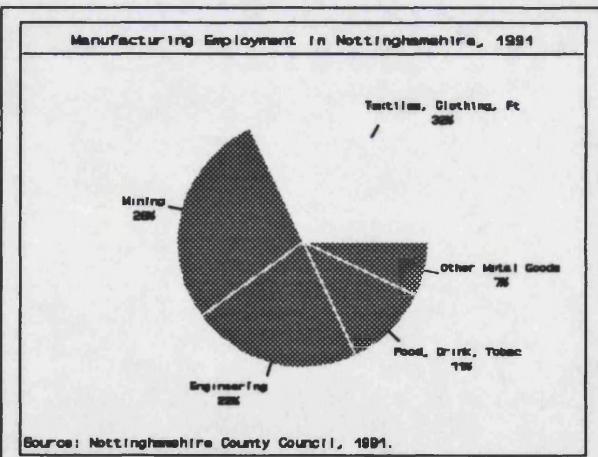


Figure 4.2

¹¹³ Interview 29.

¹¹⁴ The second highest regional dependence is found in Yorkshire and Humberside, where the industry comprises 14.75% of manufacturing employment (LATC, 1992).

changing market conditions. Consequently, high unemployment has plagued both the city and county (Table 4.2). Between 1977 and 1986, county unemployment trebled from 20,000 to 60,000 out of work (Collis, et. al. 1986, p.3). Since 1981, unemployment has been, on average, 11.1%. Until 1987, the city and county rates were generally equivalent to the UK and regional average. After 1987, area unemployment rates have been consistently above them.

Table 4.2
UK Unemployment Rates, 1981-1993 (%)

Unit	Nottingham Travel-to- Work Area	Nottinghamshire County	East Midlands	UK
Year				
1981	11.1	11.2	10.9	10.7
1982	11.8	12.1	12.1	13.8
1983	11.7	11.7	11.5	13.0
1984	13.1	12.7	12.5	13.3
1985	13.7	13.2	12.9	13.9
1986	14.0	13.7	13.1	14.0
1987	13.5	13.4	12.6	13.4
1988	11.2	9.4	7.6	8.6
1989	9.0	9.4	6.6	7.4
1990	7.3	6.6	5.1	5.9
1991	7.5	7.4	6.1	6.9
1992	10.0	10.0	8.7	9.4
1993	13.0	11.3	9.9	10.8

Source: *Regional Trends, Employment Gazette*, various years.

Within the key industrial sectors, job losses have been very severe. Since 1980, 26,000 mining jobs were lost with the closure of 17 collieries (Cheeseright, 1992). Engineering and metals saw a loss of 30,000 jobs between 1981 and 1984 alone (Collis, et. al. 1986: 2-3) The county textile sector experienced 7,000 redundancies between 1978 and 1981 (Nottinghamshire County Council, 1991) and a further 5,100

were lost between 1981 and 1985 (Collis, et. al 1986).

The Nottinghamshire textile industry is concentrated in 3 main areas, Ashfield, Mansfield and Nottingham (table 4.3) Nottingham city hosts 21,600 textile employees. Textile employment comprises 24% of total manufacturing jobs in the city.

Table 4.3
Dependence of Nottinghamshire Travel to Work Areas on the Textile and Clothing Industry¹¹⁵

District	Total	% of Manufacturing Employment	% of Total Employment
Ashfield	10,950	40.9%	18.7%
Nottingham	21,600	24.1%	7.2%
Mansfield	2,688	28.0%	5.0%

Source: Census of Employment cited in LATC, 1992, section 6.2.

This section has shown that the textile industry remains an important industry within Nottingham, despite significant decline. The next section looks at industrial change.

II-B. RESTRUCTURING IN THE UK TEXTILE AND CLOTHING INDUSTRY

The UK textile industry has been in the process of restructuring. Throughout the 1970's and 1980's, this sector, characterized by price competition, mass production methods and little design input, found itself increasingly vulnerable

¹¹⁵ These figures cannot capture the other industries that depend on textiles, such as textile machinery, dyestuffs, chemicals, transport and the retail sector (LATC, 1992, section 6.4). Nor do these figures include part-time employees and homeworkers.

to the increase in third world production which could offer similar products at much lower prices. In an attempt to cut costs, the workforce was reduced. Concurrently, the fashion market was also changing and the demand for design-led, higher quality fashions escalated.

Successful industrial readjustment toward higher quality production, however, has been impeded by structure of the UK retail sector¹¹⁶. Retailing is highly concentrated with the top ten firms accounting for over 50% of clothing sales and thus are able to exert substantial control over the way the industry produces. One observer noted:

Its a retailer market in the UK. Take a company like _____, they have five factories but do not have their own name. They sell almost 100% to Marks and Spencers so they can't afford to cooperate with _____ or _____ when all three are fighting for the same contracts and fighting for survival with one retailer.¹¹⁷

Ergo, the retail structure has hindered collaborative and networking ventures among textile and clothing firms, a condition which is critical to meet these new market demands (chapter 1).

Admittedly, in the past, steady contracts with the strong retail stores had provided firms with some degree of stability. Guaranteed contracts allowed for, on one hand, the long term planning which is required to meet the demands of long-run, high-volume, mass production methods, and on the other hand, the deskilling and partial automation of parts of the production process which reduces labour costs. These

¹¹⁶ This discussion of the fortunes of the British Textile and clothing industry paraphrases from Totterdill (1992).

¹¹⁷ Interview 30.

cost reductions, however, ultimately proved inadequate against the lower labour costs of third world competition. To take advantage of these lower costs, retailers have moved business outside the UK thereby decreasing internal demand for production. Concurrently, importers found that they could easily penetrate the market because a contract with one main retailer guaranteed them a large proportion of the UK market for their product. Thus competition increased on two fronts; internally among UK producers and externally from lower priced imports.

In the mid 80s, the market for mass produced goods saturated and the retailers began to compete in a middle range market where competition stems from style, quality and fashion trends as well as price. These new markets demanded firms that could provide quick response times and small batch methods that could keep pace with rapidly changing fashion trends. Just-in-time production methods favour firms which were territorially accessible, thus reopening up space for UK firms, especially small firms, which can provide the flexibility to meet these new production demands. On this market, the main competitors did not come from Asian and eastern sources but from the European Union, especially Italian and German suppliers, who have an advantage in design innovation that the UK lacks.

Table 4.4
Employees by Firm Size in the UK Textile Industry

Firm Size (no. of workers)	Area	East Midlands		Great Britain	
		Year	1985	1991	1985
1-9 employees		621	741	2632	3031
10-19 employees		188	153	675	469
20-99 employees		319	326	1145	1090
100-499 employees		159	118	594	506
Over 500 employees		17	13	47	37
total		1304	1351	5093	5115

Source: Business Monitor, various years.

NB: This is the textile industry only. There is a separate class for clothing and footwear.

Looking at table 4.4 there is clear evidence of a change in firm size indicating that some successful restructuring has occurred. Since these new production methods favour flexible small firms, an appropriate indicator of successful restructuring would be a movement away from larger firms toward smaller firms. The number of small firms (under 20 employees) has increased in the East Midlands between 1985 and 1991 while medium-sized and large firms have clearly declined. Of particular significance, there has been a general increase in the number of textile firms between 1985 and 1991. However, since the growth occurred in the small firm sector, total job creation does not compensate the jobs lost from the decline of larger firms. Let us now examine the precise industrial structure in Nottingham in order to assess the boundedness of the local industry.

II-C. THE TEXTILE INDUSTRY IN NOTTINGHAM

Looking at the situation in Nottingham, the majority of firms are located in a confined geographical space known as the Lace Market. Around 200 firms including manufacturers, ancillary services and a few small retailers comprise the Lace Market fashion system employing over 1,100 people (not counting homeworkers). Within the Lace Market, the geographical concentration of firms has allowed for "a complicated networking community"¹¹⁸ (Crewe and Forster, 1992, p.7). The firms are interdependent and rely on subcontracting and shared services, and the area itself has provided a central point for labour recruitment (Totterdill, 1992). The firms work in small units that were created through the division of old Victorian factories which are highly suited to the production methods of small businesses needed to compete on the high quality market and provide a seedbed for newer design-led companies, often started by graduates from the local polytechnic's Fashion and Textile Department (*ibid.*)¹¹⁹.

A study conducted by Crewe and Forster (1992) of the Lace Market identifies the types of firms that are located in the area: 1) 21% provide ancillary services and supplies such as lace finishers, wholesalers, and embroidery, 2) 5% are

¹¹⁸ This should not be interpreted as an industrial district.

¹¹⁹ Many of the larger firms which once dominated the fashion system had been enticed out of the Lace Market in the 1960s and 1970s to relocate in the centre and north of the county (Ashfield-Mansfield) in order to diversify the coal-based economies without worsening the male labour shortages already plaguing the mining industry.

manufacturing firms that produce for the low ranges of the market, 3) 25% of firms manufacture for the medium range of the market, 4) 3% are medium-sized firms that manufacture for the high range of the market, 5) 8% are small firms (manufacturers and/or designers) who also produce goods for the top range of the market, 6) 17% of the enterprises are small manufacturers/designers who operate either as retailers or are independent retailers with manufacturing facilities, and 7) 20% are small retailers who sell products at the top range of the market. Notably, Crewe and Forster found that firms operating at the lower and medium end of the market were much older (average age 32 years) than those operating at the quality end of the market (average age 6 years). Almost all the firms qualify as small firms, employing 16 workers on average. Crewe and Forster attribute the growth of quality firms to local government strategies which had specifically tried to attract designers into this area through the supply of essential services and workspaces taking advantage of the expertise and skills already present in the city (Chapter 6). For example, 65% of the Lace Market Designers were trained in Nottingham, 41% at Nottingham Polytechnic (now Nottingham Trent University).

In the Lace Market, foreign competition is not the only threat to the survival of the textile and clothing industry. Recently, the fashion market has been in difficulty as consumer expenditure has dropped while rents, taxes and interest rates have increased. Hence a second, equally important threat comes from the sustained and continuing

redevelopment of the buildings in the Lace Market into office space and the increased rents this activity encourages. Many manufacturers have already been forced to move out. Crewe and Forster (1992, p.12) found that 32% of the firms remaining in the Lace Market felt under threat and believed they also would eventually be forced to relocate. A report conducted by the consultant Ben Johnson-Hill for the Nottingham City Council (1988) reinforces the acuteness of this threat. Johnson-Hill reported:

The main conclusion is that, because of the improvements in status, visual appearance and market value of the buildings in the Lace Market generally, the future of LMTM [Lace Market Textile Manufacturing] is increasingly on risk. If no offsetting action is taken by NCC [Nottingham City Council], the numbers of LMTM will decline steadily over the next ten to fifteen years to a fraction of the numbers in business today (p.2).

The loss of the Lace Market also threatens firms with the loss of their skilled workforce. Firms which produce for the quality end of the market require multi-skilled employees who can perform a large number of tasks and switch easily from one product to another. This tends to be mature women, often mothers, juggling familial and work responsibilities. These women are more easily employed and retained in a central location close to shops and other services where travel to work is relatively brief and convenient; this is known as the 'one bus journey'. Labour turnover in these firms is very low because the workforce has been built up gradually, and a good deal of trust has evolved between employees and employers, fostering the warm feelings of belonging to a tight knit group. Firms producing for the lower end of the market tend to have a younger, less skilled workforce which does not require

a central location. In fact, a study conducted two years later in 1990, again by Johnson-Hill, discovered that quality-led firms that moved out of the Lace Market were having great difficulty retaining their skilled labour who were returning to employment in the Lace Market.

Although the Lace Market is an area in which part of the industry seems to have successfully restructured toward the quality-driven end of the market, the firms there are still highly dependent on the British domestic market to sell their wares. Crewe and Forster found that 49%, half the manufacturing firms in the Lace Market, do not export at all. 44% of Lace Market firms export up to 25% of their production while only 7% of all firms export over 25% of their output. The customers of the Lace Market firms are predominantly the British retailers, who are the largest customers for 56% of the Lace Market's companies. On a more promising note however, many of the products are sold to small, quality retailers, and those that are sold to the larger retailers are the top of the quality range. Finally, 68% of firms were found to produce some goods under their own brand-names. There is a growing commercial value of a "Made in the Lace Market" identity (Johnson-Hill, 1990). This organization in the Lace Market is atypical for the industry as a whole which mostly produces for the retailers' brand name.

The production system in Nottingham can be interpreted as a partially bounded core-ring system. Dependence on national retailers located externally sets clear limits on the influence of local institutions and will tend to foster an

industrial identity that is divorced from territory and more closely linked to the sector, as defined through national input-output linkages. This is partially compensated by the localness of the labour market and the firms perceptions that being in the city matters for obtaining appropriately skilled staff. In addition, given the nascent growth of interfirm networks, a shared identify within the Lace Market, and a general willingness of Lace Market firms to work with local public and public/private institutions (Section III and chapter 6), scope exists for local initiatives which can strengthen this nascent fashion system and expand its customer base, especially through export promotion; leading ultimately to the increase of the boundedness of the system.

III. LOCAL INSTITUTIONS AND INSTITUTIONAL NETWORKS IN NOTTINGHAM

The first half of this section assesses the institutional capacity of the private sector in Nottingham including employers associations, trade unions, public/private organizations and education and training institutions (public actors were discussed in section I). The second half then looks at the results of SNA, to assess the strength and thickness of institutional networks in Nottingham.

III-A. AN INSTITUTIONAL MAP OF NOTTINGHAM

The Nottingham economic development environment is comprised of a number of business associations: the Nottinghamshire

Chamber of Commerce, the Confederation of British Industries (CBI), the Lace Market Manufacturers Association (LMMA), and the Knitting Industries Federation (KIF)¹²⁰.

The Nottinghamshire Chamber of Commerce is one of the stronger Chambers in the UK¹²¹, with a membership of 2,650 which covers approximately 65-70% of the County workforce. It performs two main functions--local political representation and business service provision. Although an important player in economic development generally¹²², it has had little involvement in textile strategies especially as its clothing and textile committee has recently disbanded¹²³.

The Chamber's development activities are numerous and varied including: training (it is the largest training provider in the county), business-education compacts to create links between business and education agencies to promote the building of necessary local skills,¹²⁴ trade missions to

¹²⁰ Local enterprise agencies are also players in this policy field.

¹²¹ UK Chambers of Commerce, which are voluntary organizations, tend to be weaker and more poorly resourced than their public-law counterparts in Italy and most other European countries.

¹²² As one respondent noted when asked who were the most influential actors in local initiatives: "Nottingham city, the County Council and the Chamber of Commerce. The rest all would follow from one of these areas, indirectly or directly. Without those three players you can't do anything locally (Interview 34)".

¹²³ The textile unit served as one of the mandatory wages councils whose main purpose was to set industrial wages. When these councils were abolished by the Conservative Government, there was no perceived need to maintain the unit.

¹²⁴ Textile companies participate in such endeavours as a way of building up the declining local skill base.

Europe and abroad, a Euro information centre, a BC-Net link and, more recently, encouraging an East Midlands identity and a promotional body for the region to encourage inward investment. It has good working relations with the local authorities; their collaboration and advice are trusted and respected. Like the local authorities, the past decade has brought important changes in the Chamber's method of operation, especially increased involvement with the public sector--primarily with central government departments.

It is not unusual now for me to say that we contract with the ODA [Overseas Development Administration], the European Commission, the British Council, The Department of Employment, the DTI and the TECs...Ten years ago that pretty well was unheard of. Chambers went with Central government on things like trade missions and that was probably about it.¹²⁵

Although the Chamber has increased its involvement with public agencies, the regional office of CBI rarely participates in local activities. Equivalent to the UIP in Prato as both are local representatives of the main national employers association, it differs dramatically in its local role. The regional CBI provides a link for regional firms into the national policy network and acts as a national transmitter of business advice and information. Given its strategic position within national business networks, although the CBI is not an actual player in policy design and implementation, it is often consulted on important local business matters. In areas of information and advice, relations with local authorities are good. For example, when the TECs were

¹²⁵ Interview 19.

established, the CBI helped select the appropriate people to serve on the Board of Directors.

The next employers group, the Lace Market Manufacturers Association (LMMA), which represents Lace Market textile firms, is quite young, set up in 1989, with the assistance from the Nottingham City Council, when the threat from property speculation was at its highest.¹²⁶ Leadership is voluntary and membership is around 35 although it started at 55. Members dropped out when the property market collapsed and the speculation threat momentarily declined. Because it offers a collective structure to the Lace Market firms, it receives political support to provide the local authorities with a group that can genuinely voice the concerns of area firms. Not only does it serve as the main conduit of information between the Lace Market Manufacturers and the NCC, it also plays a key role relaying information regarding local policy and developments to local firms. The LMMA passes word to its members who then pass the word to their customers, subcontractors and suppliers (Crewe and Forster, 1992, p.59).

However, although the LMMA provides the firms with a collective association, their collective identity stems primarily from recognition of a common threat rather than as an interdependent system as evidenced by the almost halving of its membership after the removal of that threat. One respondent noted; "We helped to set up the LMMA and held its

¹²⁶ The NCC provided some indirect assistance to get the LMMA started by furnishing them with a list of all the manufacturers in the area and doing the first mail shot to get the firms involved.

hand but there is no real collective action."¹²⁷ When asked what could be done at the local level, the LMMA representative responded "They've got to start at the top and work down. We've got to become more protective of our industries. We should not be supporting the level of imports that we've got."¹²⁸

This attitude suggests two things. First, the firms identify with the textile industry generally, and not territorially within the Lace Market. Although they recognize the importance of the Lace market location for their labour force-- the 'one bus girls'--they do not recognize the importance of proximity and interdependence for their international competitiveness. Second, they seem to perceive their relationship with local government as a way of influencing national government rather than as an end in itself. When asked about the value of local initiatives, the response was, "Its hard to identify any of these initiatives and say yes there has been anything that's helped us....Our biggest threat is simply foreign imports. We can't compete with the labour rates."¹²⁹ These are not the types of activities that can be pursued locally. Nevertheless, a dialogue has been created between the local firms and the public authorities, and a general degree of consensus has been established for public involvement in the industry, albeit in a vague and undefined manner.

¹²⁷ Interview 27.

¹²⁸ Interview 32.

¹²⁹ Interview 32.

The LMMA is the only sectoral actor with a purely local constituency. KIF, the Knitting Industry Federation, is a national association. Since the bulk of the knitting industry is located in the East Midlands, the KIF could be considered a regional (as opposed to local institution). Historically located in Nottingham, it moved to Leicester in 1992. KIF's remit, however, is the provision of primarily functional rather than territorial representation and services to their members. Given this national (and arguably European) orientation, KIF can not provide adequate institutional representation for the textile and clothing industry at a local level. One respondent discussing the industry associations (employers and trade associations) stated quite clearly, "They are small and have not been very effective. Had any associations, unions etc.. been at all effective, we would not be doing what we are doing."¹³⁰

The trade unions, which are also, at heart, nationally organized, have been important actors, albeit often in an informal manner. There is some complication identifying this community of actors because of numerous changes that have occurred in the past decade. In the early 80s, the two main Nottingham-based textile and clothing unions were the National Union of Tailors and Garment Workers (NUTWG) and the National Hosiery and Knitwear workers¹³¹. More recently, both these

¹³⁰ Interview 24.

¹³¹ Two other unions have had a presence in Nottingham. The Trade Union Congress (TUC), which is the largest UK union. The TUC-CBI relationship is quite important nationally but has no regional complement. The Transport Workers and General Union has a dyeing and finishing branch, which was a target sector of early

unions have amalgamated with other, larger unions. NUTWG is now part of the general trade union, General, Municipal, Boilermakers and Allied Trade Unions (GMB) while the Knitting and Hosiery Workers joined with the National Union of Footwear, Leather and Allied trades to form KFAT, the National Union of Knitwear, Footwear, and Apparel Trades, now based in Northamptonshire.

Institutional reshuffling was not the only destabilizing element regarding union presence; financial problems were also present and, we must keep in mind, unions, like local authorities, were targets of Thatcherite policies to restructure Britain (but that is another thesis). As a result, although union-local authority relations are quite good, involvement in policy is primarily informal; usually through personal contacts. The city and county maintain links with the unions and consult them on policy decisions in this more informal style. One respondent stressed:

Just the other day the trade union liaison officer from the Nottingham City Council rang me, what do you think about textiles. They want to borrow money and the banks won't lend them any but we are prepared to if we get the OK from the Union.¹³²

There are also a number of public/private agencies in Nottingham created to promote economic development; the Training and Enterprise Councils which are centrally-funded institutions and Nottingham Development Enterprise (NDE), the Lace Market Development Company (LMDC), and the Fashion Centre

policy initiatives.

¹³² Interview 26.

(FC) which were generated locally. Except for the FC, the birth of the other institutions is directly attributable to the Conservative's policy to place, to the maximum degree, economic development in the hands of the private sector.

The TECs are independent legal entities set up and led by local employers to promote economic development through partnerships between the public and private sectors. The TECs manage all existing government sponsored training programmes and, consequently, require government approval for most funding decisions. Two/thirds of the TEC membership would be senior employers and the other 1/3 came from local education and training agencies, voluntary groups and trade unions "who supported the aims of the council (Marsh, 1992: p.196, emphasis in original)." The TECs are employer-led rather than tripartite again showing the Government's need to weaken the role of unions in industry. Nottinghamshire has two TECs, the North Nottinghamshire TEC and the Greater Nottingham TEC which were established in 1990. Although they are new and growing actors which are still defining their role in the local economy, their access to central funds and their large private-sector networks make them important local actors.

The other local institutions (NDE, LMDC, FC) will be discussed in detail in chapter 6 as institution building was an important component of the local textile strategy. These institutions were created specifically to fill in institutional gaps in the area of development and establish formal relations between the public and private sectors to accomplish specific development objectives. Once established,

they became local actors in there own right.

The last group of actors which require attention are the training providers. For the textile and clothing industry, the TEC contracts primarily with two private Industrial Training Organizations, KLITRA and CAPITB and some local further education colleges to deliver training programmes. Both started as Industrial Training Boards (ITBs), statutory bodies made up of business and labour representatives to oversee industrial training needs. As the ITBs, and their obligatory funding levies, have been abolished, these agencies now survive in the private sector. KLITRA is headquartered in Nottingham, and CapitB has a local representative. As ITBs these organizations were important partners in some of the earlier textile training initiatives. As ITOs, they have not been as involved in local activities. One observer noted:

I think its fair to say they have had their own problems during this period rather than getting involved in more partnerships. They've had to cut staff and cut costs. Its been more important to have individual partnerships with their individual companies.¹³³

Other institutions worthy of note are the University of Nottingham which plays a role indirectly as part of the local economy and by participating on boards such as the LMDC board.

Finally, the last major player is Nottingham Trent University, previously the Nottingham Polytechnic. Of particular significance is the textiles and fashion department which trains designers, technologists and managers for the industry. It is an important local and national actor, being represented on NEDO (the National Economic Development

¹³³ Interview 39.

Organization) when NEDO was still active. Established in 1843 as a Government design school to help the local firms compete against their French counterparts, this institution has maintained the presence of textile skills in the area and has been a major contributor to the growth of design within the local production process.

Summing up this tour of Nottingham institutions, it is quite plain that Nottingham suffers from institutional mismatch; territorial representation (the Chamber) is inappropriate and functional representation (KIF) looks from the top down. The one association that could provide both territorial and functional representation (the LMMA) is underresourced, understaffed, and unconvinced. As a result, the institutional capacity of business associations with reference to the textile industry is quite weak. In addition, many of the other sector associations (trade unions, ITBs) have undergone serious internal changes, limiting their resources and their potential as network partners. The weakness or absence of collective actors, a changing institutional landscape, differing perceptions of threat, all will seriously challenge Nottingham's ability to instigate collective action. We shall see in chapter 6 how it has dealt with these constraints.

Returning to our theoretical framework, it is clear that there are multiple institutions covering a wide range of development areas (training, business support, industrial relations, dialogue building) which might offer the foundation of institutional thickness. However, the constantly shifting

institutional map and concurrent internal redefinitions and financial constraints sets limits on the degree to which many of these institutions can involve themselves in external programmes. Additionally, the institutional mismatch between the centrally-directed sectoral institutions and locally-directed development institutions indicates the absence of both a common industrial purpose and a shared set of conventions regarding the shape and legitimacy of subnational activity. The constant institutional change that has marked the local landscape undermines the ability of institutions to make credible long-term commitments to substantial trust-based relationships with other institutions as each organization is struggling simply to survive in the medium-term. Those good, trust-based relations which have developed revolve around local authorities; relations among the private sector actors are patchy and uneven. Local union-business association relations, for example, are practically non-existent. Let us look at the results of the SNA to get a picture of the nature of the interactions which have developed among these institutions.

III-B. INSTITUTIONAL NETWORKS

The adjacency matrix used to measure the networks included 23 actors, the institutions discussed above as well as the key public bodies--the city, county, DTI, Department of Employment and the Department of the Environment. The density of the network was found to be .53, which suggests that a mixture of

strong and loose-tied actors or only partial integration. Compare this to institutionally-thick Prato, whose density was .83, indicating a strong interregional functional network with loose ties in particular policy areas. The density measure suggests a lack of institutional thickness, indicating that if area resources are to be integrated in support of the industry, certain actors must be able to play a brokerage role between these various institutions.

Centralization measures (Table 4.5) demonstrate the degree to which a network is organized around specific prominent points which represent the actors with the greatest number of linkages and hence best placed to play that brokerage role. Network centralization was found to be quite high, 64% suggesting a strong degree of centralization around a small number of actors. Compare this to Prato where centralization was found to be 28.6% indicating widespread interaction among all area actors. In Nottingham, only the city is connected to all other actors although the county is a close second (it has no direct linkages to the LMMA). The other key actors are central government departments, the CBI, the Greater Nottingham TEC, the Chamber of Commerce, and of those involved directly in the textile industry, Nottingham Trent University and the Fashion Centre which is technically part of the NCC. In Prato, five actors were found to be completely connected (score of 100)--all three levels of subnational government and the three business associations indicating the potential of multiple leadership roles. In Nottingham, although multiple leadership roles are indicated,

they are isolated to subnetworks and do not hold the potential for galvanizing the community toward a common purpose in the same manner as the networks found in Prato.

Table 4.5

Centrality Measurement of Exchange Networks in Nottingham

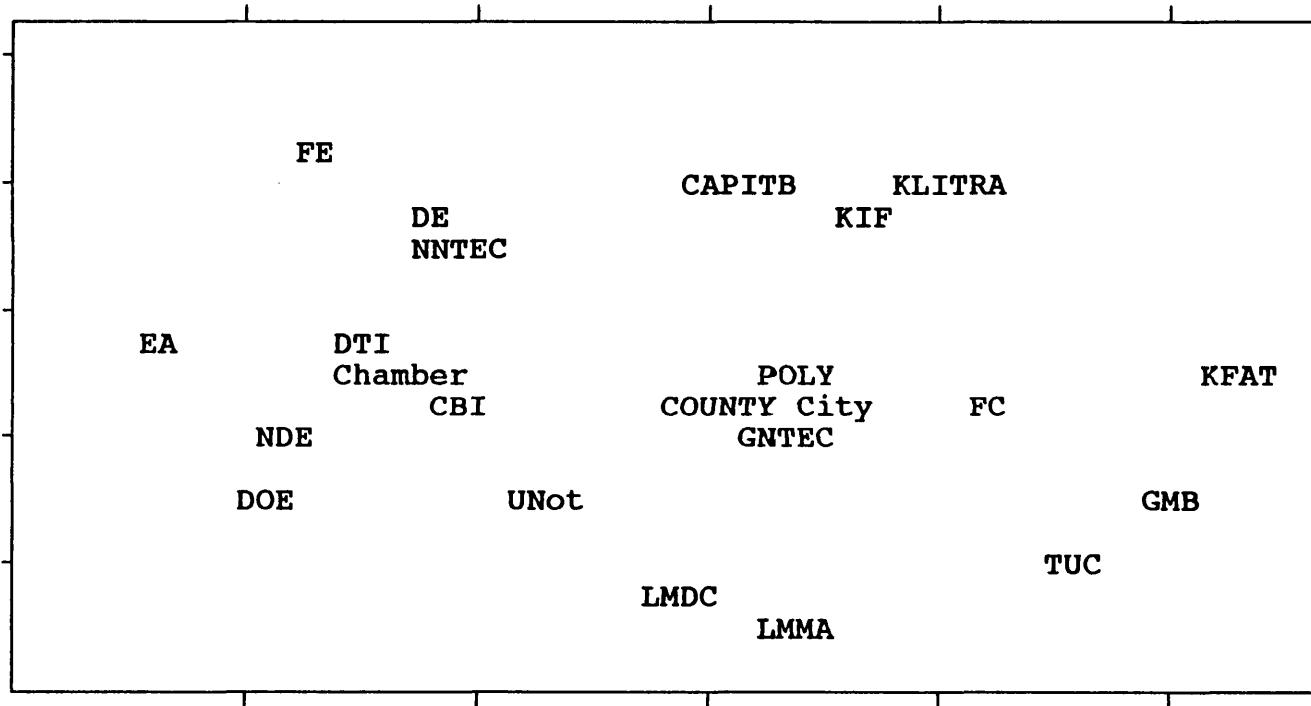
Organization	Degree of Centrality
NCC	100.00
County	95.65
Greater Nottingham TEC	84.65
Nottingham Trent University	78.57
CBI	78.57
DTI	73.33
DE	73.33
Chamber of Commerce	73.33
Fashion Centre	70.97
University of Nottingham	70.97
NDE	68.75
North Nottinghamshire TEC	66.67
KIF	64.71
CAPITB	64.71
KLITRA	64.71
LMDC	64.71
DoE	62.86
Further Education Colleges	62.86
GMB	61.11
KFAT	61.11
Enterprise Agencies (City)	59.46
TUC	56.41
LMMA	55.00
Total Network Centralization	64%

We must be careful when analyzing this centralization information. The centrality of the NCC indicates solely that it has the most linkages. Although centrality may be an appropriate indicator of power (as in the case of Prato), in this case it is not. Because central government departments do not have direct contact with some of the more local actors, especially those outside their specific policy range, they would not appear as central. What this data does indicate is

that the local authorities represent the primary link between the highly localized groups (i.e. the LMMA and the enterprise agencies) with the main power structure in the area--the county, the government agencies, and the business organizations, and the key link between policy area subnetworks.

The brokerage role of the local authorities is quite evident in the multidimensional scaling (figure 4.3). Looking at the graph, four subgroups can be identified. The local authorities, the Greater Nottingham TEC and Nottingham Trent University are placed in the centre demonstrating their potential brokerage role between the various subnetworks as these actors possess the most linkages to all other groups. Unlike Prato, where the central points represented a strong functional network, this network centre represents only potential network brokers.

Figure 4.3: Institutional Networks in Nottingham



KEY:

CAPITB, CBI (Confederation of British Industries), City (Nottingham City Council), County (Nottinghamshire County Council), Chamber (Nottinghamshire Chamber of Commerce), DTI, DOE, DE, EA (Enterprise Agencies), FC (Fashion Centre), FE (Further Education Colleges), GMB, GNTEC (Greater Nottingham TEC), KFAT, KIF, KLITRA, LMDC (Lace Market Development Company), LMMA (Lace Market Manufacturers Association), NDE (Nottingham Development Enterprise), Poly (Nottingham Trent University), TUC, UNot (University of Nottingham).

Second, the left half of the graph comprises the real community power structure and key economic development network; the regional government departments and the general business associations (the CBI, the Chamber of Commerce, and Nottingham Development Enterprise). These groups provide territorial representation and services to area businesses and have strong linkages amongst themselves and with the city and county. Other studies have shown Nottingham to have very strong economic development networks that centre around these groups (Bennett and McCoshan, 1993). Third, the right quadrant contains the sectoral network, the Fashion Centre, CAPITB, KLITRA, KIF and separated off, the trade unions. Finally, on the lower portion of the graph are the organizations that are responsible only for the Lace Market; the LMDC and the LMMA. This group is the most isolated from the rest, relying on their connections to the local government as their main voice into the more general networks. The graph also reflects the degree of centrality of each group, the groups most linked are central, and the groups with the weakest linkages, such as the LMMA, and the unions, are on the outer edges of the graph.

Putting the results of the SNA analysis together¹³⁴, the data suggests several conclusions. First, there are a number of networks that make up the economic policy dimension: 1) a general functional economic development network that includes

¹³⁴ Structural equivalency measures, which were used in chapter 3, were not included here because they added no new information.

the business associations, the government agencies, and the local authorities; 2) a sectoral network with knitting and territorial subgroups; and 3) an isolated issue network centring directly on the institutions involved in the Lace Market. As shall be seen in chapter 6, the NCC created this network in order to increase the resources that could be brought into improving the Lace Market and safeguard its manufacturing base. Although there were many institutional actors, lack of interconnectivity means that thickness has not developed. Second, the networks tend to act in isolation from each other. Only the central actors (the local authorities and the Greater Nottingham TEC) are well placed to integrate diverse area resources by acting as brokers among the various institutions.

To sum up the conclusions of this chapter, the overall effects of Conservative policies on local government have been mostly negative. Local government initiative and discretion and have been reduced substantially as a result of the loss of financial and political resources. In addition, they are more open to the whims of market forces and less able to counter or ameliorate potentially detrimental effects (Gurr and King, 1987, pp.180-184). Hence the institutional capacity of local actors is overpowered by central-local relations, whereby the centre dictates the parameters of local action. However, the growing fragmentation of the institutional architecture enhances the last resource remaining to local authorities, their positioning in the centre of multiple networks, demonstrated by the SNA

results, suggesting that they are the best placed to broker in and integrate these dispersed resources. If it is able to broker these networks, Nottingham could build some type of active capacity.

However, this capacity also depends on the institutional strength of the private sector, which we have shown to be questionable at best. The growing fragmentation and complexity of the institutional landscape, and the internal instability of many of the older institutions undermines their ability to make credible commitments over the long-term, hence hindering their potential as network partners in collaborative governance activities. Bennett and McCoshan (1993) had found that the UK local authorities, generally, have had difficulty promoting the horizontal integration of actors because the institutional landscape is characterized by "fragmentation; overlaps; gaps; complexity; and poor focusing" of networks and development initiatives (p. 203). The analysis so far suggests that Nottingham conforms to this picture. Despite a weak institutional infrastructure, Nottingham has been actively involved in industrial restructuring with some measure of success. Chapter six will analyze in detail the support given to the industry over the past decade, and whether or not the local authorities found effective ways to build up a supportive institutional environment or learned how to manage without it.

5. NETWORKS WITHOUT LEADERSHIP: TEXTILE INITIATIVES IN PRATO (1975-1992)

INTRODUCTION

Chapter four established that the institutional structure in Prato had particular advantages and disadvantages for managing industrial restructuring. To briefly reiterate, her strengths are a bounded, flexible, quality-driven, and export-oriented economic structure which has historically been able to swiftly adapt to market changes, continuous governance by a political party which has been ideologically predisposed to pursuing balanced and just development, and highly developed civic traditions and well-established cooperative institutional networks among economic and political groups. All of these strengths are important components of a learning economy. On the down side, the public administration is sluggish, inefficient and subject to restrictive legal and financial constraints on policy-making, and the competition among economic associations can inhibit strategic economic management, a situation which has been exacerbated by the process of structural adjustment which has redistributed resources among local associations to the benefit of some and the detriment of others.

This chapter evaluates how these conditions have affected Prato's ability to manage structural change and guide its economy out of the severe crisis of the 80s. In particular, it

will focus on how the network-based system of economic governance has had to adapt to new economic, political and social conditions emerging from structural change. In other words, it will assess its ability to learn.

The chapter will take the following structure. Section I sets the scene by looking at development initiatives in the 1970s to identify the system of economic governance that had successfully managed the economy before the crisis. Section II looks at economic governance during the crisis years. Finally, section III examines the results of social network analysis to draw conclusions about the importance of institutional networks for economic governance in Prato.

I. SETTING THE SCENE: (1975-1982)¹³⁵

As elaborated in chapter 4, Prato has managed, until recently, to stave off decline through the development of new products and industrial processes. Throughout the years, a rich and varied range of initiatives from both the public sphere and from civic society have emerged to help the industry regularly adjust to market and technological change. The large range of activities and policy instruments result from, on one hand, the number of involved actors, and on the other hand, from the multiple objectives pursued (Balestri, 1990). The contribution of each sector (public and private) will be examined individually and then their attempts at collective strategies

¹³⁵ This historical section relies heavily on the work of Balestri (1990).

will be reviewed.

I-A. THE PUBLIC SECTOR

Much of the literature on the textile district in Prato does not attribute its economic dynamism to political factors but to its integrated social fabric, fluid class structure, innovative capacity, and flexibility (Camagni and Capello, 1990). However, this overlooks the vital role played by the local authorities in three key areas: political mediation¹³⁶, infrastructure and social services.

Mediating among various issue-based networks is one of the municipality's key contributions to economic governance. The city has used this mediating role to create and sustain the conditions which are favourable to both workers and firms as well as facilitate agreements among them. For example, Balestri (1990, pp.100-1) attributes the mediation of local authorities as the determining factor in the creation of Pratotrade, a local business consortia, because it won over the confusion and resistance initially offered by firms concerning the collective promotion of local textile products. Although the city has been governed by the PDS which had clear links to certain trade associations (CGIL, CNA), the municipality was able to effectively perform this role because it focused on pragmatic development needs rather than party ideology.

¹³⁶ Interview 15.

The unique feature of Prato's experience is represented by the fact that the sense of belonging and of identification with community values prevail over any type of political bias. The defense of local economic interests comes before ideological party positions; the local municipal administration and trade associations acquiesce to, in fact, the process of industrial development (Balestri, 1990, p.28).

The municipality's second significant contribution has been the provision of essential infrastructure especially in the area of water usage and industrial space¹³⁷. One of the most serious problems plaguing both the industry and the community is the water pollution that results from industrial usage. When new regulations emerged in the early 80s requiring the purification of water before it is discharged back into the environment, it was obvious that very small firms would be unable to bear the financial burden these regulations required. To overcome this problem, the municipality helped to establish a centralized purification system which is expanding even today. It is co-funded by the Region, the EU, and the partners of the Water Project consortia (see section I-B), who are also involved in the overseeing of the system. As for industrial space, establishing well-equipped industrial zones (Macrolotto) was included in the city's general regulatory plan drawn up in the mid-70s (and revised on advice from UIP,

¹³⁷ The city has also had several ambitious transport projects but their success rate is poor. Attempts to build a transport centre during this period to ease the transport of imported and exported goods is still today experiencing difficulties getting off the ground. Additionally, much money has been invested over the years to build up regional transport networks but these projects ran into bureaucratic difficulties. For example, 800 million lira was set aside to construct a connection between the Prato-Calenzano Highway and a densely populated industrial zone in southeast Prato. As a result of bureaucratic lapses, the money was never used (Balestri, 1990, p.100).

CNA and Confartigianato). A public-private consortia, which included the Municipality, the Cassa di Risparmio, UIP and the craft associations, was established to coordinate the transfer of firms to these areas¹³⁸.

The provision of infrastructure illuminates the importance of institutional networks for economic governance. Since infrastructure is often jointly financed by the city and the region, public networks are key funding and governance mechanisms in this issue area. Nevertheless, although the financial provision is public, the projects are usually managed by public-private partnerships.

The final contribution of the local government has been the provision of social services¹³⁹. At the end of the 70s, 50% of local expenditure was allocated to social services which at the point was higher than the Tuscan average. The city provided day care, gyms, swimming pools, sporting areas, and enhanced public transport facilities; all at very low costs and sometimes for free (Trigilia, 1989, p.319). A medical service that undertook health checks and medical research within the factories was also instituted. Although this service was funded by the municipality, it was regulated by an agreement between the UIP and the trade unions; again

¹³⁸ Presently, one Macrolotto is up and running but there have been problems coordinating firm relocation given the high number of firms and the consistent under-resourcing of the consortia (Bellandi and Romagnoli, 1994).

¹³⁹ Actually, Prato only fully developed this role in the late 70s. Trigilia (1989) hypothesizes that the attention of the municipality from 1951-1985 (when the population doubled) was focused on the urbanization process and the provision of basic services. During this period, some social services were provided by civic society (see I-B).

evidence of public funding but joint governance of many key projects. As pointed out in chapter 3, the provision of social services has been a crucial contribution to both local development and social cohesion. Collective service provision, acting effectively as social wages, served as a crucial support structure to interfirm and employer/worker relationships. Let us now view the contributions of the private sector to economic governance in these early years.

3-B. THE PRIVATE SECTOR

As elaborated in chapter 3, Prato has strong civic traditions with historically developed habits of cooperation and rich networks of civic engagement which support a highly articulated system of local industrial relations that managed the local productive system successfully until the crisis. Relations among private sector actors is not reducible solely to this area of activity. Joint private sector initiatives have made a substantial contribution to economic development in three key policy areas: business support, technological innovation, and social services.

The private sector has played a fundamental role in the provision of business support in two ways: through the banking system and by the development of a range of consortia. Balestri (1980, pp.105-108), a keen observer of Prato's development, has gone so far as to suggest that the local bank (Cassa di Risparmio) has been the only actor which has offered a kind of industrial policy to the textile area through an

easy and abundant credit policy and a series of services to firms especially in the area of international trade.¹⁴⁰

Table 5.1
Bank Investments and Deposits in selected Italian Municipalities (1986) in millions of lira

	INVESTMENTS PER CAPITA	DEPOSITS PER CAPITA
Bergamo	24.4	25.0
Biella	21.0	24.2
Prato	18.0	16.8
Modena	13.6	15.1
Carpi	11.2	14.1
Cossato	5.4	10.6
Barletta	2.7	7.8
Italy	5.4	9.3

Source: Balestri (1990, p.107), revised.

The credit system may have been too easy. Table 5.1 demonstrates that Prato has had an exceptionally high rate of investments per capita and actually one of the few areas in which investments minus deposits per capita is actually negative. Balestri (1990) noted:

The credit policy exercised by the Cassa di Risparmio was inspired by an unconditional faith in the capacity of the development of local firms and had transmitted expansive stimuli to the whole industrial system without following more severe and selective criteria in their trust (p.106).

Thus, the bank's credit policy may have sustained many firms

¹⁴⁰ Before the 1970s, the adequate provision of credit was due in some part simply to luck. As a successful industrial district, Prato was considered by national banks to be a training ground for habituating their personnel to the particular situation of these districts. In the 70s the local bank took over this credit-providing role (Balestri, 1990).

that the market would have destroyed. There is disagreement however if this policy was more beneficial or detrimental in the long run. On one hand it provided vital capital for growth. On the other hand, it led to overexpansion and overproduction, ultimately leading to both a crisis in the local banking system and in the entire industrial system because of the firms' inability to pay back those loans.¹⁴¹ Constrained by debts, the firms fell into competitive pricing policies which exacerbated the economic crisis. The banking crisis presents the consequences of certain aspects of thick institutional networks; shared common belief as to the infallibility of the system created a cognitive lock-in which hindered their ability to recognize warning signals when those signals undermined or threatened their collective belief systems.

The second main form of business support, the establishment of consortia, represents a highly successful form of business collective action to help small firms to cope with the problems inherent in a fragmented productive structure. These consortia represent the industry's search for innovative solutions based on horizontal, cooperative endeavours which do not offer advantages to single firms (Balestri, 1990, p.108). While these consortia are independent entities, most are linked to the UIP, and are located directly in the UIP's building complex. There are a wide range of

¹⁴¹ Interview 7.

consortia¹⁴² including: 1)Pratotrade which coordinates Prato Expo, a biannual exhibition of local products; 2)Uninform which provides a data bank on the commercial behaviour of customers and includes over 14,000 Italian firms; 3)Consortium to promote the commercialization of special categories of products such as Promozione Maglieria (Knitwear Promotion); and 4)credit consortia available at the craft, merchant and industrial associations to ease the provision of credit to their members by guaranteeing 50% of a bank loan.

These consortia have offered the industry a wide selection of commercial and financial services. Complementing these consortia are the services provided directly by the network of associations (see chapter 3). Although the building of a consortium is a time-consuming experience fraught with difficulties, they make a fundamental contribution to network building and collective efforts and constitute a principle foundation of the learning economy. Balestri (1990) concludes:

All the consortia...have promoted opportunities for meetings and the exchange of ideas in a world that previously had been closed and jealous of its own experiences, and this represents a result whose importance is easy to undervalue but remains extremely positive with respect to the cultural profile (p. 111).

The second area of private sector activity was technological innovation. In 1972 the UIP exploiting Law 1089, which promoted applied research through financial means, formed Tecnotessile (with the assistance of the Florentine

¹⁴² Given the wide range of Consortia present in Prato, it would take up too much time and space to discuss their specifics in detail. See UIP (1992).

Chamber of Commerce and the Cassa di Risparmio) to assist the development of technological activity. Given the small size of the firms, they would be unable to develop these activities independently because of the prohibitive costs of research. The initial scope for the centre was to "guarantee the recuperation of productivity of textile firms (Mariani, 1972)." Besides applied research, it would provide consultancy and technical advice to local firms and has expanded into machine quality certification and training courses for textile technicians. Although Tecnotessile has now became a private company one of the shareholders is the TEKIN consortia, which provides a channel for UIP capital into the institute. Partners in Tecnotessile are not just Prato firms but come from Biella, Lombardy and Veneto which provides a useful way to promote technology transfer. "In the Administration Committee, the firm representatives exchange opinions, they exchange information, they exchange technologies."¹⁴³ Tecnotessile also represents an important node in both the Italian and European networks of research institutions. It has been linked to the Universities in Florence, Bologna and Pisa, especially their chemical and engineering sectors. It is an important bridge between university and industry thus a crucial instrument for technology transfer and local learning.¹⁴⁴

¹⁴³ Interview 4.

¹⁴⁴ Despite this seemingly strong position, Tecnotessile has three serious weaknesses: 1) its small size (10 personnel), if compared with analogous centres in Troyes, France (50) and Aachen, Germany (80); 2) the dominance of non-Prato firms; and 3) the inability of local firms to express their specific needs

The last area of private activity is social policy. The Fund for Social Policy (Fondo Per Interventi in Campo Sociale) was established in 1974 by a committee of representatives from the UIP, the artisans, and the trade unions, and financed by the firms themselves. The Fund provides a range of social services including day care, transport, and health care at work that adds to the cohesion of the industrial district. More recently, it has been used to finance training courses. Although this fund has had its difficulties---firms not paying their contribution, difficult relations among the local associations--it has contributed to the overall cooperative climate and flexibility of the productive system (Trigilia, 1989a). It represents an important network for managing, albeit with difficulty, vital socioeconomic issues.

Summing up, the picture that emerges is one of criss-crossing overlapping institutional networks and subnetworks pursuing various policy goals using a variety of policy instruments. Although I subdivided the discussion into public and private sector activities, these distinctions refer primarily to where the project initiated. Once started, it was not uncommon for other actors to become involved. The private/public distinction means very little in a governance system of this design. Local governance is collective governance, coordinated through thick institutional networks. However, most of the issues discussed are project-based, aimed at managing a particular problem or meeting a particular need. During this period there was only one real attempt to bring

(Balestri, 1990, pp. 104-5).

all the actors together in a single forum to devise a comprehensive strategy for the textile industry. To this attempt we now turn.

I-C. A LOCAL FORUM: THE INTEGRATED PROJECT FOR THE TEXTILE INDUSTRY

Acting on a national study which recognized Prato's unique industrial structure, the local and regional authorities (including all municipalities within the textile district) in conjunction with the local employers and artisan associations, the Cassa di Risparmio, the trade unions, API, researchers and other key organizations formed a committee to identify priorities and policy areas to collectively guide the future of the industrial system (Balestri, 1990, Progetto Integrato 1975). This strategy marks a conscious attempt to collectively govern the future direction of the industry.

A multi-dimensional plan for the district, the Integrated Project for the Textile Area in Prato,¹⁴⁵ identified six areas for intervention: 1)professional and vocational training; 2) research on the technological revitalization of the carded wool yarn sector; 3)demand and resources for financing; 4)studies and planning of water resources; 5)industrial zones; and 6)transport connections especially those to Pisa airport and the port at Livorno. Each policy area would be managed by a different partnership. For example, the research for revitalizing the carded yarn sector was organized primarily through the region and UIP, water resource

¹⁴⁵ Progetto Integrato Dell'Area Tessile Pratese

planning was conducted through a network of public actors, and vocational training was governed by the whole group. Many of the projects discussed earlier were brought into this strategic framework.

Training policy was substantially aided by the European Union, through the European Social Fund. The Integrated Project coincided with the EU's Programme for a Community Textile Policy. Due in part to EU involvement and in part to the large-size of its managing partnership, the training projects were the most complex and articulated of the six (Balestri, 1990).

Despite all good intentions, this attempt at designing a comprehensive, collective strategy for governing the industrial system was a disappointment. While some positive results materialized such as the attainment of EIB funding for the Macrolotto and the establishment of crucial guidelines for confronting some of their most severe water problems, most of the projects fell short of the desired objectives (*ibid.*). The organizations involved in the vocational training project expressed dissatisfaction with the courses offered and more importantly, no long-term training framework ever emerged. Attempts to make space available for industry got lost in the slowness of the public bureaucratic machinery, the water problems got worse and the Research Centre never achieved its objectives which eventually led to its closure (*ibid.*). Perhaps the worst damage of all was legacy it left regarding the locality's experience with strategic initiatives. Balestri (1990) notes:

The completed efforts for putting local development in order were unable to cope with the problems of overlapping competences and inadequate resources; they encountered great difficulties finding agreements among the organizations involved; it all ran aground when confronted with the complexity of the processes of assuming tasks and attributing responsibilities.

In the end, the limits demonstrated by the realization of objectives and the proper management of prepared instruments had sustained a sense of mistrust of the real possibilities of intervention. The climate of collegiality, of general participation in the processes of intervention and territorial planning was cooled and, within a short time, the season of horizontal committees, collective programmes, and faith in the guided rationalization of the local industrial system had come to a close (p. 96).

Thus, the decade of the seventies was a disillusioning experience regarding the building of a collective strategy for the local economy. In the absence of such a strategy, the individual projects which did move forward remained partial and unfocused. Although the existence of the dense institutional networks promoted joint activities within particular issue areas, some type of leadership was clearly required which could knit together the fragmented policy pieces and mediate more effectively among the diverse interests.

The overall failure of this strategy, however, should be interpreted as part of the overall learning process. Gambetta (1988) argues convincingly, "Being wrong is an inevitable part of the wager, of the learning process strung between success and disappointment, where only if we are prepared to endure the latter can we hope to enjoy the former" (p.235). Although this experience left a bad taste in the mouths of local actors, they ultimately did try again, all the wiser for the early experience.

This section demonstrated that economic governance in Prato was based on a dense web of institutional networks. Although these networks had trouble coordinating broad, far-reaching programmes, and the weakness of the public sector inhibited key projects, these networks did provide a range of business and social support services to area firms and workers that maintained the viability of a small firm economy. The next section examines how the crisis and concomitant structural adjustment required a similar adjustment of the system of local economic governance.

II. THE CRISIS YEARS: MANAGING INDUSTRIAL CHANGE (1983-92)

The 1980's mark a fundamental change in both the functioning of the socio-economic system and the general role of the local government in the economy. Like its British counterpart, the local authorities in Prato began to directly enter the field of economic development as their previous role as service provider was no longer considered sufficient to cope with increasing social and economic change.¹⁴⁶ Unlike Nottingham, Prato already had an established institutional infrastructure and strong civic culture for collectively approaching economic problems. Furthermore, economic hardship generated a need for external resources, enhancing the role of local authorities as they are best able to tap into national and European funding opportunities. Despite the lack of success of the 70s project

¹⁴⁶ Remember, however, that Italian local authorities have no direct powers in this field, thus it is still done through indirect means.

in terms of direct strategizing, the cooperative climate remains a key resource that the local government has had at its disposal. The challenge then for Prato was to find the leadership that could effectively exploit that resource.

During this period a number of changes in the overall policy environment, besides the entry of the local government into economic development, can be charted which have altered the local economic governance system. First, extra-local actors (regional, national and European) are now becoming increasingly important as sources of finance and innovation. Second, the projects are more ambitious in scope. Since they represent solutions to the crisis of the economic system, they are aimed at changing the local culture and the organization of production rather than just supporting it through services. Third, the crisis has disadvantaged certain actors more than others and this has led to a redistribution of resources among the involved organizations which exacerbates local conflict and competition. Learning, however, requires the ability of institutions to adapt their relations as well as their support services to meet all changes engendered by restructuring, including political relationships. The effect of these changes will be examined in this section. On the policy side, to cope with the crisis a range of initiatives were developed in four policy areas¹⁴⁷: technological innovation, the strengthening

¹⁴⁷ Infrastructure, although still an important area of concern, has not been included because most of the projects during this period were a continuation of those projects begun in the 70s---the Macrolotto industrial parks, the water purification system, and the Transport Centre. There is one new project, the Industrial Aqueduct---another venture to get Prato's water problems under control. As infrastructure is still the one

of SMEs, human resources, and institutional capacity building. Each will be examined in turn.

II-A. PROMOTING TECHNOLOGICAL INNOVATION

One of the earliest, largest and most ambitious projects to emerge in 1984 is the SPRINT consortia (Prato's System for Technological Innovation¹⁴⁸). As this project promised to revolutionize the local industry and its governance system, it is worth analyzing in great detail.¹⁴⁹ The trials, tribulations and successes of the SPRINT project offer a prototype of the difficulties of collective policy learning and adaptation while in the throes of network transformation. The SPRINT initiative, in particular, promised to radicalize the local communication system on which the industrial system was founded; threatening both the traditional organization of production and the established power relations.

SPRINT was initially conceived in May 1983 between the UIP and ENEA, the national research agency for alternative energies¹⁵⁰, as the result of a meeting, sponsored by ENEA,

area governed primarily by public sector networks (although with some private-public management as discussed in section I) the crisis has not fundamentally altered the governance structure.

¹⁴⁸ Sistemo Prato Innovazione Tecnologica.

¹⁴⁹ The historical part of this section borrows heavily from the excellent article by Scarpitti (1991b), an ENEA employee, who reconstructed the SPRINT experience between 1983 through 1988 in a comprehensive and exhaustive manner.

¹⁵⁰ Although ENEA's initial mandate was to promote research on alternative energy, in the early 1980s it had decided to build a reputation as a national agency for innovation. Thus it concentrated its attention on a local system specializing in a

between local and scientific experts on the possibility of promoting research on the technological revitalization of the textile industry in Prato through the introduction of information technologies on a wide scale. To animate the project, an association was formed that could incorporate a range of diverse partners. The founding partners were UIP and the two artisan firms.¹⁵¹ The first step was the instigation, by ENEA, of two studies on information technologies and technological innovation. While the studies were being conducted, the number of partners grew rapidly. The new partners included: 6 banks (including the Cassa di Risparmio of Prato)¹⁵² the Florentine Chamber of Commerce, STET (a public telecommunications company in which the State is the major shareholder), the city of Prato, and later, in 1986 Fulta, the Federal Union of Textile and Clothing Workers.

Once the studies were completed, the proposals presented to the governing committee were caught up in such an extensive political debate that the next phase did not begin until the end of 1985. The outcome was the promotion of two projects: one to set up a system wide network to connect firms and information providers using advanced information technologies and the other to promote technological innovation. Funding for the projects would come from Tuscany and EU programmes.

traditional industrial sector (Scarpitti, 1991b, p.164).

¹⁵¹ For institutional reasons, ENEA could not become a direct partner.

¹⁵² The others are Monte dei Paschi di Siena, Cassa di Risparmio di Novara, Banca Toscana, Istituto San Paolo di Torino and the Cassa di Risparmio di Pistoia.

Although the region of Tuscany was not an active partner, it invested a good deal of money into the project with the aim of creating a regional telematics pole (Bevilacqua and Croce, 1990, Bellandi and Trigilia, 1991). This suggests that subnational authorities (especially the region), because of their ability to tap into a wider range of external funding sources and integrate local projects into wider information and technology networks, are becoming key components of successful local initiatives, and can enhance the learning process by providing a wider, more diverse policy environment.

The first project on information technologies was by far the more ambitious of the two projects and received much greater attention and greater resources. This project's main objective was to render transparent, and therefore more efficient, the communication system which the studies had determined to be quite costly. To do this, a VIDEOTEX system, which relies on inexpensive terminals connected through modems and telephone lines, was proposed¹⁵³. 300 terminals would be distributed to firms to link them into numerous data banks provided by local actors. These data banks would cover a range of issues including demands for and offers of work for subcontractors, updates on technical advancement, a home-banking system, financial consultancy, and administrative procedures required by the local government and other public bodies.

Despite a general consensus regarding the broad aims of

¹⁵³ Because the system relied on phone lines, SIP, the national telephone company, had to be brought into the plan.

SPRINT, the project was fraught with problems from the outset. In particular, relations among the partners were politically charged. In 1985, a technical committee, the CT, had been created to coordinate the planning of SPRINT services. Within this committee Reseau, a Milanese consulting firm which had undertaken the initial project study, had the job of assigning and coordinating work tasks and attempted to do so using technical criteria. This approach, however, was undermined by an unavoidable aspect of partnerships---politics and the need to divide the spoils. Scarpitti (1991b) notes:

In fact, to coordinate a CT, whose main role is the definition of services, is not only a technical problem, but also political and this was an aspect that maybe was, then, undervalued. The overlap of roles is, therefore, very high. Technical competence and politics intersect and collide with each other and technical instruments come to be used to confront political problems and vice versa (p.167).

This interpenetration of technical expertise and political bargaining substantiates the key assumptions regarding network theory (chapter 2); power is manifested in a form of persuasion that relies heavily on technical arguments.

Different relative bargaining strengths left their mark on the project. Greater attention was given to the data banks concerning subcontracting work at the expense of the others; evidence of the power of UIP and the struggles of the artisans to maintain their power base as the loss of small firms cut into their membership. The training aspect was almost completely ignored. This proved to be an important oversight as SPRINT ran into cultural resistance among local firms who could not easily understand the value in cost/benefit terms of what SPRINT could provide (Balestri, 1990). SIP was mainly

concerned with setting up a national system and did not devote sufficient attention to the specific problems of the users in Prato. The phone lines kept falling in the early phases of the project. Additionally, the new systems were not always compatible with existing equipment such as printers.

By the end of 1985, the political dimension got the upper hand. This is evidenced by the dissolution of the CT, which had been designed, at least in theory, as primarily a technical committee, and the establishment of the CG, a Steering Committee, which took on a completely political character. Two local consultancies joined the CG. These new actors would take on relations with the community leaving Reseau with the responsibility for managing non-local relationships such as SIP. By 1988, despite these initial problems, a system, albeit not as ambitious or widespread as initially planned, was up and running in the experimental phase. By 1989, all local actors were providing a range of data bases. By 1990 400 terminals were distributed free among SMEs and artisan firms; SPRINT was established (Bevilacqua and Croce, 1990).

The second project on technological innovation was different in many ways than the first project. It received markedly less resources and was project-based, focusing on explicit problems in specific phases of the production process. Like the first project, the subprojects chosen were determined more by political muscle than by technical measures (Scarpitti, 1991b, p.171). In fact some of these smaller projects were primarily for the benefit of craft firms,

suggesting the bargain between the UIP and the craft firms with the UIP winning the bigger prize. The subprojects covered: 1) loom automation which benefitted the artisan subcontractors; 2) CAD textiles to help firms create their sample collections which closed in 1987 because many firms did not use these services;¹⁵⁴ 3) colour management (later quality control) in dyeing firms which resulted in the creation of new dyeing methods but ironically, these were not taken up by firms in Prato but by a firm in Castellanza; and 4) robotization of combed yarns which created an innovative system but the results again were exploited by firms external to the district. Thus, the uptake of these projects ran into serious cultural barriers. In fact, the need for changes in the entrepreneurial culture was recognized by many participants as a key obstacle to successful restructuring which suggests that, despite successful examples of institutional learning, there were insufficient linkages between local associations and local firms that could bring the firms along, limiting the overall learning potential of the economy.

The SPRINT experience provides a wealth of information concerning changes in Prato's system of local economic governance. First, the institutional networks have expanded to include a wider range of regional and national actors. This has had both positive and negative consequences. On one hand, it has expanded the financial, technological, and

¹⁵⁴ This failure was credited to cultural hostility on the part of the users and an inappropriate interface between users and providers which benefitted the providers (Scarpitti, 1991b).

organizational resources available to the area, which subtly enhanced the role of local authorities within the development process, as they are key channels of access to these other resources. On the other hand, so many organizations within the structure considerably slowed down the decision-making process and increased the number of objectives which had to be met (Balestri, 1990). Additionally, cultural factors impeded the ability of Prato's firms to exploit the fruits of their own labours, with project results taken up by firms external to the district. So although Prato was successfully building up the institutional environment for the textile industry generally, its network structure seemed better developed politically than economically, as many local firms were not able to benefit from local efforts.

Second, the diversity of interests prohibited the development of a strategic telematics project¹⁵⁵; resulting in the provision by the associations of data bases to their individual membership. We must recall, that restructuring fundamentally alters interfirm relations as well. These changes naturally were manifest in the bargaining relations of the actors. Given the uncertainty as how different categories of firms would be affected by the crisis, their collective representatives attempted to use SPRINT as a way of enhancing their own positions. Thus a key component of learning is to

¹⁵⁵ For example, the industrialists opposed the total transference of market information because the foundation of the Impannatore's position in relation to the artisan subcontractors was his monopoly of market information (market orders, deadlines, future work predictions). The artisans, alternatively, wanted to use SPRINT to gain greater access to this information (Bevilacqua and Croce, 1990).

work within a bargaining framework--building policy in a way so that all involved benefit from the outcome.

Notwithstanding substantial problems, many participants believe that SPRINT was a valuable project. "It was a worthwhile experience that has advanced and matured the knowledge and the capacity that we are using."¹⁵⁶ "In our opinion, the culture of diffuse firms has grown greatly through the SPRINT experience."¹⁵⁷ Clearly, these participants stressed the learning aspect of the SPRINT experience. Hence, although SPRINT did not meet its initial objectives, it provided an important framework for learning and growth in a changing environment.

Recently, there has been strong indications of change and growth. A task force was established to work with the SMEs and train SPRINT users "...assisting them, and listening to their suggestions, they have learned many significant things to disseminate telematics culture in a basin of microfirms" (Bevilacqua and Croce, 1990). Thus, watching the fruits of SPRINT going to external firms, they have started to build links to local firms, to help them reap what the local actors have sown. SPRINT is also expanding. For example, SPRINT users can now tap into the Chamber of Commerce data banks located in Padua. Biella firms have become members; an action which represents the first collaborative project between firms in the two most important Italian textile zones (Il Tirreno, Prato edition, 23 November 1989). Thus SPRINT is slowly

¹⁵⁶ Interview 6.

¹⁵⁷ Interview 5.

emerging as an important link between Prato and outside sources of information. Despite a very slow start, SPRINT is taking root.

Besides SPRINT, another centre for technological innovation was established during this period. CESVIT (the Centre for the Development of Technological Research¹⁵⁸) is a regional non-profit research institute targeted at enhancing technological innovation by promoting collaborative research between firms and public research centres regionally, nationally and European-wide. Its main objective is to support applied research and technology transfer to assist small and medium enterprises operating in sectors most hit by the 1985 enlargement of the European Union including textiles and clothing. CESVIT is a regional rather than local initiative and thus includes a different range of actors but the city of Prato was founding member and associated members include Tecnotessile, UIP and Prato's Artisan Associations. Although there are direct institutional relationships with many of the key Prato actors, the majority of the CESVIT's research activities are targeted toward the electronics, mechanical and electromechanical sectors. However, CESVIT still represents a key node within regional, national and European innovation networks and thus the potential for the Pratese to use this axis is there. Significantly, the CESVIT initiative highlights the growing importance of the regional government to promote and integrate wider links to assist local initiatives. CESVIT allows for the creation of synergies and technology transfer

¹⁵⁸ Centro per Lo Sviluppo della Ricerca Tecnologica.

between industries, which would not be possible at a local scale.

This section examined initiatives to promote technological innovation. In both cases, the institutional networks were broader and looser than those found in the pre-crisis years; now including many more non-local actors. Innovation means expanding networks; tapping into wider bodies of information. Prato has recognized this need and is adapting to meet it by expanding its institutional networks. However, although these new links convey new sources of finances, expertise, and information, they can also bring in competitor firms, which have thus far been more effective than the Prato firms at exploiting the results generated by these initiatives. Greater attention to changing the working culture within the district is clearly mandated. Let us now look at other policy areas to see if similar things are happening.

II-B. BUSINESS SUPPORT: STRENGTHENING SMES AND ENCOURAGING STRUCTURAL ADJUSTMENT

A number of policies to strengthen SMEs and encourage structural adjustment have been pursued during this period. The Structural Funds continue to support loans and the consortia have survived and expanded. Of particular interest are the projects devoted specifically toward structural adjustment and quality control.

Until the crisis, the small size of firms and their high degree of flexibility and specialization have been important components of Prato's productive success. This has changed.

All respondents cited excessive fragmentation as one of the key problems that now has to be confronted. To overcome this difficulty, the artisan associations, in partnership with the local administration, have promoted two projects that specifically address the problem of excessive fragmentation; Grantessuto and Gulliver. They are similar in objective (to aggregate a number of small firms), but not in design.

Grantessuto resulted from an aggregation project sponsored by the local economic development department as part of their more general strategy to promote industrial restructuring (Gambassi, 1991) and a similar endeavour promoted by Confartigianato. It was financed in two stages. Money was provided by the EU, the region, the Chamber of Commerce and the city of Prato for the formative and planning phase. Once established, the more regular forms of investment for small firms were used; in particular the Guarantee Cooperative provided loans and the Sabatini law offered support for investment in machinery. Grantessuto is a non-profit consortium made up of 9 artisan firms¹⁵⁹. The artisans remain independent but are located in a shared workspace. All are coordinated by and participate in the Service Centre which represents the single interface between these firms and the market. The centre provides the strategic and commercial direction as well as a range of shared services.

There are two advantages to this organizational structure and both represent fundamental contributions to the

¹⁵⁹ While the initial project included 60 artisan firms, in the end only these few "had the motivation to change" (Interview 17).

competitiveness of these firms (Indirrizi Tessili, 1991). First, concentration allows for significant cost reductions. Previously, each firm would have to pay for their own warehouse or transportation expenses, now they combine these costs at significant savings. Second, this organization allows for these artisans to provide high quality goods, tailored to meet specific client requests at a higher level of quality uniformity than would be possible if each worked in separate work areas. Previously, large orders would be divided out among subcontractors resulting in different quality of work and different finishing times. To guarantee a common quality, new, homogenous looms, 70 in all, had to be provided for the artisans. Heretofore, the main problem encountered in the implementation of this project has primarily been a lack of finance.

Grantessuto was not the only experiment of this kind. The CNA also undertook a similar initiative in 1991, Gulliver, but structured it quite differently. In the Gulliver initiative, the artisan firms did not all relocate into a single shared workspace but each kept their own. Rather they started an external consortium that can contract with clients on behalf of all artisans. Similar to the service centre created in Grantessuto, it allows these firms to jointly make large contracts and then distribute the work amongst themselves. The existence of the consortia guarantees greater control over quality and time frames than would be possible in its absence. Although they do not have similar looms and equipment like Grantessuto, the consortium, since it has

knowledge regarding the quality of the artisans and their equipment, can guarantee that work is distributed in accordance to what each artisan is capable of delivering. No artisan has an incentive to cheat because bad quality reflects on all the involved firms. Gulliver started with 10 firms and has grown to 30. Since the firms remain autonomous, it has been easier to organize them collectively than in the case of Grantessuto. One observer noted about Gulliver, "It is a rather interesting experience which could also be the route with which we can work to overcome the structural crisis we are passing through."¹⁶⁰

Although these two projects are structured differently, both are managed and coordinated by a consortium of the involved firms which allows for them to overcome the problems of fragmentation in a way which benefits both the firms and their customers. The consortium, as a collective interface, must guarantee quality and each participating firm knows it cannot cheat or it as well as the others will lose out. These are true examples of overcoming market failure through collective action, in which local leadership provided the catalyst and the firms themselves ran with it and grew independently. The partnerships, in these cases, were small and very effective. Although these projects only assist directly the firms involved in the project, these initiatives represent important prototypes for others to follow. In fact, Grantessuto was presented first in Milan rather than Prato because it was believed to be of national significance.

¹⁶⁰ Interview 5.

Although the partnerships surrounding these projects were small, the associations used their national links as a way of expanding the implications of the project. The success of Grantessuto and Gulliver does not just bode well for Prato but for industrial districts and small firms generally. By following different routes to the same end, which are shared through common networks, a greater understanding of the problem and potential solutions is developed within the locality. Policy experimentation is an important component of learning institutions.

One theme which is shared by both these initiatives is the need to provide and guarantee quality products. Clear evidence of the strategy of up-marketing and preserving their advantage in high quality markets. Another initiative in this vein which was also launched in 1991 is the Textile Quality Centre or CQT¹⁶¹. CQT is a non-profit corporation whose purpose is to: 1) provide training for textile experts with regards to inspecting and certifying quality; 2) to publish the standards for certification and total quality techniques and manuals to explain their application; and 3) research into methods for achieving a higher degree of quality control during the manufacturing process. It has its own laboratory facilities and performs quality control tests for Prato firms. CQT represents a clear example of how collective action once established creates its own momentum and creates more collective pursuits and encourages the growth of the learning economy. It was not created by individual firms but by a

¹⁶¹ Centro Qualita' Tessile.

number of the already established consortia including Pratotrade, Promozione Filati, Promozione Maglieria, Promarredo and the business associations (UIP, CNA, Confartigianato and the Industrialist Association of Pistoia). The financing institutions include the EU, the region of Tuscany, the city of Prato, and the Florentine Chamber of Commerce; underscoring the growing importance of subnational authorities as key channels for external resources and forces for the integration of multiple resources which support a learning environment.

The partnership surrounding CQT is a wider network of all those involved in business support, compared to the smaller consortia, but it is still a smaller subnetwork than that which was formed to govern SPRINT. The evidence so far suggests that these smaller projects based on smaller functional partnerships that coalesce around specific issues are more effective. While these projects seem similar to the activity in the early period, they are differentiated in two fundamental ways. First, the partnerships have an enlarged mandate; they are not just about Prato's problems but concern industrial districts more generally which intellectually inserts them into wider networks and thus open to broader and more innovative solutions to their own troubles. Second, they are clearly building on earlier forms of collective action, thus representing a second, deeper stage of collaboration which relies on well-established trust relations between specific actors. Let us look at the next policy area, human resources policy, to deepen our understanding of the new

system of economic governance emerging in Prato.

II-C. HUMAN RESOURCE POLICY

In the area of human resources, one of the major centres, established in the early 70s, is the Professional Training Centre (Centro Formazione Professionale). Although established in the early years, it reaches great importance only after the instigation of the Structural Funds, thus it has been included here. The significant aspect of the partnership which surrounds the management of this centre is that the more marginalized actors, the merchant associations and API, the other small business association, are present in the management committee. Additionally, the region has legal competence for vocational training but Tuscany had devolved this competence to the province or presently in Prato to the Intercommunal Association, thus it rather than the city is the key actor.

The Centre offers training courses in two ways: through the centre itself or through the individual associations. Thus the unions, the artisans, the industrialists and the merchants provide home to training courses which are supported by the region and the EU. Human resource policy has developed substantially, due in no small part to the Structural Funds¹⁶². First, it has deepened the inclusion of these actors in the provision of training programs through mandatory participation in the management of the Centre. Second, there

¹⁶² Interview 12.

is more money available to pursue these policies. Third, it has directly integrated the associations into training provision because they are themselves training providers. This is an important mechanism for tailoring policy to local needs, for overcoming the general dissatisfaction with training policy apparent under the Integrated project, and for effectively dividing the spoils among network members so all benefit from the experience and have incentives for continuing to participate in collective strategies. Europe has offered tangible resources which has led to the development and consolidation of a human resource network; one which is discernably different from the networks which had developed around other policy areas. This includes all actors within the textile district; thus empowering actors who are marginalized in other policy areas, providing them with some voice in economic governance.

In fact, in the 1980s a number of new human resource initiatives have emerged. Such policies include the provision of managerial training courses (also supported by the structural funds), experimental post-diploma training courses, and the institution of an international Fashion Polytechnic in Prato. With the smaller focus, this larger network seems to function quite well. The problems with training policy come mostly from the late arrival of finances and the difficulty predicting market needs when course decisions must be made a year in advance. However, as with the integrated project, while vocational training is managed on a yearly basis, there is no evidence that a directed, strategic vision has emerged.

Despite the range of actors collaborating within the training network on a regular and formalized basis through the Centre, the capacity to act strategically has still not developed. Aware of this problem, the municipality took steps to overcome this. To this initiative we now turn.

II-D. BUILDING LEARNING INSTITUTIONS: THE CONSULTA ECONOMICA

Although the range of initiatives were broader, more innovative and more numerous during the crisis years, Prato still faced the same problem of fragmented, unconnected and quasi-competitive policies. Although institutional networks were strong and growing to expand other actors, they were still too competitive; battling to get the best for their members as the SPRINT experience aptly demonstrates. Overcoming the crisis required leadership which could successfully mediate the tensions between power struggles and the need for a collective response to the crisis; to aggregate all the available resources, develop a common industrial purpose within changing conditions, and provide the tools to guide it on its way.

In order to overcome this general weakness, the local administration promoted the Consulta Económica or Committee for Economic Consultation. The Consulta met sporadically in the early 80s, but it developed more completely in the second half of the decade. The Consulta brings together all social, economic and political actors at a common table to develop a common policy strategy. The Consulta is an informal gathering

that meets according to perceived needs; thus takes on greater significance during periods of crisis. It is difficult to measure its actual contribution.

On one hand, it presents a strategic collective approach to local economic management which has been usually conducted through bilateral mediation or through network subsets. "The Consulta does not have the power for direct action. It has the power of orientation...; to make a common position emerge."¹⁶³ It is not about specific negotiations but dialogue and information exchange to build up a Prato identity. One observer noted:

It is a role in which we seek to work through dialogue towards convergence because aspects of bilateral negotiations remain among the various actors. That is we have bargaining relationships with the industrialists, and with the unions, the industrialists have with the unions. Inside the Consulta we seek to work towards convergence more than that which could divide us and it has been an extremely positive experience and it has brought us, in several periods, to present ourselves as a single actor to the region, also to [National] Ministers, and to the EC. Because at the end, the documents that we produce are not documents of the artisans or the industrialists or the unions but documents of the Prato textile area. And this is an aspect that heavily influences the capacity to get the attention of higher levels: of the region, of the state and of the European Community.¹⁶⁴

The Consulta is also a key actor in negotiations with the region.¹⁶⁵ It has been particularly important in the negotiations regarding the renewal of Prato's Objective 2 status. Although the relationships amongst these various

¹⁶³ Interview 9.

¹⁶⁴ Interview 6.

¹⁶⁵ Interview 1.

actors have developed through both conflict and cooperation, most agreed that during the crisis, there has been a high degree of unity. One respondent remarked:

I do not mean to say that there are not moments of dialectic, of collision, but regarding the analysis of the situation and the proposals for leaving this situation, we are fairly united. This is a very important legacy because we believe it is one of the most relevant conditions for pushing the public authorities--the government--to enact substantial initiatives to overcome this difficulty. Our culture comes a bit from this experience.¹⁶⁶

Another emphasized:

There is a sense that we are agreed on many things also because we have had agreements over the years. For many years...we have made agreements for confronting the crisis; agreements that have given results.¹⁶⁷

However, although collaboration was present before the Consulta, it was not as developed. A relationship existed previously but:

It was less full, less integrated, it was more occasional, more episodic and therefore did not give fruit that instead, this structure, has helped us to realize these projects, these plans. Certainly, it is not a seat where all relations are exhaustive, relations move ahead on other planes, in a bilateral way.¹⁶⁸

On the other hand, the Consulta tends to work well only when there is a crisis, not when things are going smoothly.¹⁶⁹ "Its easier to activate when there's a problem."¹⁷⁰ One factor which hinders the work of the Consulta is that:

¹⁶⁶ Interview 5.

¹⁶⁷ Interview 9.

¹⁶⁸ Interview 5.

¹⁶⁹ Interview 2.

¹⁷⁰ Interview 8.

Each association lives its own problems day by day, inside its own headquarters. There is not a mentality, a culture of socializing objectives and experiences in terms of the city.¹⁷¹

This observation furnishes an interesting insight into our understanding of institutional networks. Although they supply important mechanisms for managing conflict and coordinating essential exchanges, their presence does not ipso facto create a shared identify. Effective leadership could fill this lacuna.

This suggests another element that hampers the work of the Consulta; the transfer of the direction of the Consulta from the Assessore of Economic Development to the Intercommunal Association. The Intercommunal Association still does not have either the full powers of the province or the full financial allotment; and "it is not considered by the local administration as a serious thing....So they have not pushed it much."¹⁷²

"We are only waiting for the Intercommunal Association to move. ...Among the private actors, there is already agreement on these issues. What we are waiting for is the public [sector]."¹⁷³ Collaboration among the private actors has emerged outside the framework provided by the Consulta. Thus the problems pointed out by Balestri in the early years--the inadequacy of the public sector---have not been rectified. This criticism, however, undervalues the role of the local

¹⁷¹ Interview 8.

¹⁷² Interview 11.

¹⁷³ Interview 11.

authorities. The city created it, the region, by negotiating with them on issues of great substance, has legitimated it. When the province retains full powers, and gets through the initial teething pains of institution building, it may be able to provide more effective leadership than it has in the past. It is too easy for observers to dismiss the ambiguous role of the Intercommunal Association, which could only ever be an institution-in-waiting.

The final obstacle to the Consulta's work is the lack of established relations between Prato and the central government. Having established in 1991 a common document regarding ways of coping with the present economic crisis, the city of Prato presented it collectively to the national government. A complete lack of government response after the difficult work of determining joint goals naturally led to doubts regarding the usefulness of the Consulta and to a general demoralization of the actors. Prato's past shunning of building up central-local relations had come back to haunt them. Even when joint activities are successful, if higher authorities are hostile or indifferent to those activities, they can ultimately undermine both that particular project and the collective consensus which was so painstakingly developed. In Tuscany, however, the region's recognition of the Consulta through the CSF negotiations (chapter 7), has compensated somewhat for national indifference. However, in any case, to maintain a learning economy, requires that the participants value the dialogue for itself, not simply for the projects it can put together.

Although the Consulta remains an important forum for dialogue, it has been unable to supply the institutional leadership and coordination to the fragmentation of policy initiatives. "And today there is an insufficient role on the part of the Consulta that decides little and there is also the absence of an instrument that coordinates the initiatives of the various actors."¹⁷⁴ The Consulta, and other attempts to promote collective planning, have had greater success in the area of culture than in building the capacity to undertake effective industrial policy (Balestri, 1990, p.96). The building up of a collaborative culture, and stimulating dialogue is no small achievement especially as cultural change is the most difficult aspect of the learning process. As we shall see in chapter 7, certain European programmes were able to build on this foundation of dialogue and culture change provided by the Consulta, allowing Prato to maximize on European opportunities in a way in which Nottingham, which has had difficulty establishing similar institutional structures, could not.

The final section examines the results of social network analysis on policy networks and makes some initial conclusions regarding institutional networks, learning and the challenge of industrial restructuring.

III. CONCLUSIONS: NETWORKS IN PRATO

An analysis of policy networks requires a different

¹⁷⁴ Interview 11.

methodology than that used to analyze general exchange networks. An actor by policy matrix is reconfigured into two independent matrices; an actor by actor matrix and a policy by policy matrix. We can use these two different matrices to help us analyze the relationship between networks and leadership in the policy process.

Table 5.2
Centrality Measures of Policy and Exchange Networks in Prato

<u>ACTOR</u>	<u>POLICY NETWORK CENTRALITY</u>	<u>GENERAL NETWORK CENTRALITY</u>
City of Prato	100.00	100.00
UIP	100.00	100.00
CNA	100.00	100.00
Confartigianato	100.00	100.00
Region of Tuscany	100.00	100.00
Chamber of Commerce (Florence)	100.00	81.25
CGIL	92.86	76.47
CISL	92.86	76.47
UIL	92.86	76.47
API	92.86	76.47
Confesercenti	86.67	76.47
Intercommunal Association	86.67	100.00
Cassa di Risparmio	81.25	76.47
University of Florence	65.00	81.25
Degree of Centralization	17.47%	28.63%

Table 5.2 compares the centrality measures of policy networks with those calculated from exchange relations. Some interesting differences are immediately obvious. The Intercommunal Association is much less central indicating both its youth and the its dearth of policy responsibilities. The Chamber of Commerce moves to centre stage because it is a principle funding provider. The University of Florence appears marginalized because it participates in only a few projects. Its centrality in general exchange networks, however,

demonstrates its importance in the network of technology transfer and innovation support. The addition of the University to the general network is evidence of the expansion of networks in response to the crisis. No longer self-sufficient, Prato required the build up of wider, looser links to access important knowledge resources to enhance their innovative capacity. The trade unions, alternatively, are more central when it comes to examining policy initiatives, indicating significant participation in the governance of certain economic policy domains. Finally, API is often included within policy and strategic sessions even if it does not hold much weight within the local system.

The general conclusion which emerges from these data is that the learning economy hinges on dense exchange networks of which policy networks are only one component. Exchange networks outside specific policy domains are key aspects of governance as they shape and condition the way information is passed and knowledge is interpreted. The presence of multiple agencies which can and do play fundamental leadership roles (local authorities and business associations) animate policy and act as integrating mechanisms for both physical and learning resources. The ability to provide leadership in multiple areas and multiple networks is a source of power, and does influence the way policy develops and is interpreted. Leadership, however, is not about eliminating conflict but transforming it from petty squabbling to constructive exchange. One respondent stressed, "Development is not reducible to moments of participation, collaboration. Conflict

is necessary also for stimulating, activating more advanced solutions."¹⁷⁵ Thus, Tuscany's reticence to intervene when arguments become too parochial is at odds with its central position within institutional networks. At present the Intercommunal Association may have the territorial legitimacy to play this role, being the only political authority almost completely bounded to the local economy, but its lack of power and position is demonstrated clearly in its lack of policy involvement. This may change as the province more fully develops. Centrality alone within networks only indicates leadership potential. Action turns potential into reality.

There is evidence that the subnational authorities have expanded their role and are trying to build up their institutional capability. The region, in particular, has been instrumental for accessing external funds and providing institutions, such as CESVIT, which can stimulate innovation. Prato, alternatively, has created the Consulta, a clear bid to enhance the institutional performance of the locality for dealing with the economic crisis. The city, however, still has a few weaknesses that hinder the full development of a leadership role including a shortage of the entrepreneurial skill required to be an effective and proactive leader and the separation of services among levels of government and assessore which obstructs the development of a common strategy¹⁷⁶.

The differing centrality scores again emphasize the

¹⁷⁵ Interview 9.

¹⁷⁶ Interview 2.

different but equally vital tasks that policy partnerships and institutional networks perform for economic governance. Both function to integrate different resources into political and economic activity. Partnerships target specific problems, posing specific solutions. Networks are the main conduit for information circulation and provide the initial experience for building up relations of trust and establishing modes of operation and rules of the game among various participants. Partnerships build on network relationships, enhancing and deepening them as we saw in the business support policy domain. Both experiences build on one another. Overlapping memberships ensures that the knowledge and learning gleaned from one experience can be easily transferred to and enhance other experiences. Networks also provide ways of working through the legacy of bad partnerships. The ill-success of the Integrated Project may have contributed to the difficulties of SPRINT and the Consulta, but the on-going exchange relationships continued to encourage smaller partnerships and alternative fora.

Finally, institutional networks integrate the voice and experience of those who are more marginalized in the policy process. One respondent noted:

For the large initiatives, our relationship [with the local administration] is minimal because all the initiatives are aimed at the traditional textile world. Since we would be more representative of the innovative character, of diversification--being this we are very marginal in local politics...¹⁷⁷

However the same respondent, when asked about relationships

¹⁷⁷ Interview 8.

with the other local institutions, commented: "Industrial relations in the city are fairly positive. We meet, discuss and obviously we also fight a little, but we could lay down higher objectives."¹⁷⁸

Our understanding of these differences can be deepened by looking at the results of structural equivalence. Figure 5.1 shows the block model demonstrating structural equivalence among the actors. The numbers in the boxes indicate the number of policies on which each pair of actors jointly participated. When the actor is paired with itself, it shows the total number of initiatives in which the actor took part.

Four clusters were identified. Block 1 includes the local leaders, those actors which participated in the largest number of initiatives. Block 4 represents those players outside the central group who have been very involved in local initiatives such as the trade unions and API. Block 2 and Block 3 are actors who are only involved in select policies domains. They are distinguished primarily by the absence of a policy relationship with each other; exchange relations may be present.

Looking more closely at the information contained in the boxes, they suggest that the most active agencies are actually the employers associations. The UIP participated on 11 initiatives while the CNA and Confartigianato were involved in 9. The city and the region, alternatively, show up prominently in 8 initiatives. Looking at the dyadic relationships, the prominence of the private sector within textile initiatives is

¹⁷⁸ Interview 8.

again revealed. There are five shared initiatives among the

Figure 5.1: Block Model of Policy Networks in Prato

	C	U	C	C	C	T	U	C	C	P	U	A	C	C
	I	I	N	G	H	U	N	A	O	R	I	P	G	I
	T	P	A	A	A	S	I	S	N	O	L	I	I	S
	Y			A	M	C	V	S	F	V			L	L
				I	B	A	F.	A	E	I				
				E	N		R.		S.	N				
				R	Y				C					
									E					
CITY	8	7	7	7	6	7	1	3	1	1	3	2	3	3
UIP	7	11	8	8	6	7	1	4	2	2	5	3	5	5
CNA	7	8	9	9	6	7	1	3	2	2	5	3	5	5
CGAAI	7	8	9	9	6	7	1	3	2	2	5	3	5	5
CHAMBER	6	6	6	6	7	6	1	3	1	1	3	2	3	3
Tuscany	7	7	7	7	6	8	1	2	2	2	4	3	4	4
Univ. F.	1	1	1	1	1	1	1							
Cassa R.	3	4	3	3	3	2		4			2	1	2	2
Confeser.	1	2	2	2	1	2			2	2	2	2	2	2
Province	1	2	2	2	1	2			2	2	2	2	2	2
UIL	3	5	5	5	3	4		2	2	2	5	3	5	5
API	2	3	3	3	2	3		1	2	2	3	3	3	3
CGIL	3	5	5	5	3	4		2	2	2	5	3	5	5
CISL	3	5	5	5	3	4		2	2	2	5	3	5	5

employers and trade associations but only three between the trade associations and the trade unions. Thus, leadership has come from the private not the public sector in Prato, which may partially explain their difficulty in establishing a strategic vision. The turf wars among the private sector actors thwarts the development of a coordinated, strategic overall approach to the problems of structural adjustment.

One caveat is required. Often, after an initiative is off the ground, the public sector may later support it through funding or mediating mechanisms. As with the public sector infrastructure projects, almost all projects will at some point

rely on both public and private inputs. Since the local system is almost completely networked, those groups which assemble around particular projects may actually misrepresent the knowledge, advice, insights and political manoeuvring which takes place throughout the life of that initiative. Given the networking structure, lack of direct involvement does not preclude substantial indirect influence. As we shall see in Nottingham, alternatively, with only a partial network structure, influence requires direct policy participation.

Looking briefly at the policy types, it is obvious that different network subsets do emerge around particular policy areas. The policies can be subdivided by into network subsets (Table 5.3): intergovernmental, private sector, intergovernmental/employers partnerships, and interregional functional networks (including all territorial actors).

Table 5.3
Local Initiatives toward the Textile Industry
by Dominant Network in Prato

INTERGOVERNMENTAL NETWORKS	PRIVATE SECTOR NETWORKS
1. Water Purification 2. Aqueduct	1. Business Consortia 2. Tecnotessile 3. Social Fund
INTERGOVERNMENTAL/EMPLOYER ASSOCIATION PARTNERSHIPS	INTRAREGIONAL FUNCTIONAL NETWORKS
1. CQT 2. Gulliver/Grantessuto 3. Cesvit	1. Sprint 2. Consulta Economica 3. Centro Formazione 4. Integrated Project 5. REMTEX/CSF (chapter 7) 6. Macrolotto

Intergovernmental networks have been instrumental in providing important infrastructure projects. Private sector networks have stimulated local self-help initiatives which strengthen the local

institutional and industrial fabric. Public/private partnerships have emerged surrounding business support services which require larger resource bases or are of regional or national importance (in other words constitute key nodes in interregional or transregional networks). Finally, the largest number of initiatives included the whole network, and they were aimed at substantial strategic issues regarding the long-term governance of the textile industry. The presence of such an institutionally thick network and multiple fora for dialogue, negotiation, and self-definition has provided important space for the development of both a shared identity and common rules of the game for dealing with common problems.

Although these policies have not always been successful, they have provided important templates for learning how to learn. The presence of multiple leadership points have encouraged a wide-range of policies to support industrial restructuring in various ways. The strength of dense intraregional functional networks provides the arena to integrate these policies and experiences. This central network acts as the nucleus for learning because it is through this structure that new information and knowledge from subnetworks and external sources are interpreted and integrated into the local culture. This central network guarantees that policies and relationships are continuously renegotiated as conditions change. Its weakness is that the relationships still are stronger bilaterally than multilaterally. The local authorities, by providing important fora such as the Consulta Económica and the monitoring committees for the Structural Funds have provided multilateral fora to build

a sense of community that is associated with the economic and social prosperity of Prato. If these fora have not been perfect, they have provided important learning tools for the district to work itself through the crisis; which it appears to be doing quite well (Financial Times, 25 October 1994, Bellandi and Romagnoli, 1994).

In conclusion, this chapter has stressed three factors which are crucial for understanding the relationship between networks and local capacity building. First, institutional networks provide vital infrastructure for managing social and economic change. They develop habits of cooperation among areas actors leading to joint projects in areas of common interest; even acting to preserve cooperative habits in the face of failed collective action. They also serve as an important channel for integrating actors which may be marginalized politically or territorially. Although multiple leadership points may encourage the fragmentation of initiatives, they also promote a learning environment because they expand the boundaries of available knowledge as they experiment with different types of support structures and expand the networks themselves beyond local political boundaries. Finding national, european and international links is becoming increasingly important for information transfer especially for stimulating productive innovation. Networks which are too closed or limited solely to the local community are becoming increasingly inadequate to meet the demands of global restructuring. However, to manage these growing networks first requires that presence of strong local networks which can integrate the growing information base and use

that knowledge for effective policy and political learning.

These conclusions will be strengthened in chapter 8, when we directly compare the experiences of Prato and Nottingham.

6. LEADERSHIP WITHOUT NETWORKS: LOCAL INITIATIVES TOWARD THE TEXTILE INDUSTRY IN NOTTINGHAM (1979-1992)

INTRODUCTION

Chapter four suggested that although Nottingham had several important institutional resources to help guide industrial restructuring (highly skilled professional elite class, a partially bounded economy in the Lace Market, some policy autonomy, and a budding network structure with the city positioned in a key nodal point), generally the institutional environment has been in constant flux, with institutions coming, going and changing--generating instability, uncertainty and conflict especially between city and county, elected and administrative officials, and local and central government. Given the overall institutional weakness of the private sector and the growing constraints on local resources, key initiatives pursued by subnational authorities have been to strengthen the institutional infrastructure--to open a dialogue with the private sector, strengthen the relations between development actors, and create new institutions which could establish a foundation for the expansion of these relationships and the promotion of collective action within the private sector--hence intrinsically building up local thickness and learning capacity.

This chapter is subdivided into two sections corresponding to different phases of the evolution of

institutional support. In phase I, which runs from 1979-1987, the city provided the leadership and focal point for industrial assistance. In the second phase (1988-1992), the county has taken the main role.

I. PHASE I (1979-1987): CITY LEADERSHIP¹⁷⁹

City initiatives during this period fall into three general categories; institution-building (II-A), promoting industrial restructuring (II-B), and service provision (II-C). The county's role, as we shall see, is as a secondary partner in some of the city's strategies. Central government offices, during this period, especially the early years, had been generally supportive. Looking at each policy area, we can assess the degree to which learning capacity and institutional support structures have developed; hence if local governance capacity has been promoted.

I-A. INSTITUTION-BUILDING INITIATIVES

This section will show, that once the decision was made to assist industrial restructuring, the principal initiatives focused on institution-building; trying to establish a dialogue between industrial actors and institutionalize that dialogue in organizational fora.

¹⁷⁹ The historical account of early policy initiatives is based on the discussion provided by Totterdill (1989) and Roberts, et al. (1990).

Irrespective of the 1979 victory of the Conservative Party, the local Labour party won the Nottingham City Council (NCC). From 1979-1982, their economic development strategies were limited to the provision of factory units, service sites and grant schemes--fairly ordinary activity for English local government. In the early 1980's, influenced by the principles of the Urban Left (chapter 4), Nottingham's economic strategies were reoriented to meet four objectives: i) to counteract economic decline and safeguard, increase if possible, manual industrial employment by assisting struggling manufacturing firms; ii) a wider ideological commitment to alternative economic thinking especially concerning the structure of the production process; iii) to challenge the new Right's beliefs in the supremacy of markets; and iv) to use these economic powers in order to meet social and redistributive goals¹⁸⁰ (Lansley, et al., 1989).

To help the city develop a local economic strategy tailored to meet its pressing economic needs and move beyond the ad hoc measures of the past, in 1982 the NCC commissioned Trent Polytechnic (now Nottingham Trent University) to undertake the Nottingham local economy project, a policy-based research programme. The designation of Nottingham in 1979 as an Urban Programme Area under the Central Government's 1978 Inner Urban Areas Act guaranteed that the finances would be available for pursuing any strategy which emerged from the project.

¹⁸⁰ In Prato and Italy more generally, paradoxically, social service provision was used to meet local economic goals.

The findings of the local economy project were used as a foundation for the Local Labour Party's manifesto in the 1983 elections. The main points were as follows:

-Creation of a major unit to co-ordinate economic intervention within the City Council, accountable to a new Employment and Economic Development Committee;

-A sectoral approach to intervention, based on detailed analysis of key industries and the development of clear objectives for each;

-Community based employment initiatives targeted at the most vulnerable groups within the city's workforce;

-The creation of an arena through which the City Council, trade unions and the community could confront key issues facing the city's economy and formulate appropriate responses and strategies (Nottingham District Labour Party, 1983, Manifesto, Nottingham: Labour Party cited in Totterdill, 1989 p.504 and Roberts et. al. 1990 p.147).

Labour kept control of the council after the 1983 elections and the recommendations of the Local Economy Project were put into action. An economic development committee (elected councillors) and an economic development unit (officers) were established and a sectoral strategy was launched. The project had concluded that there were many structural weaknesses in the textile and clothing industry and proposed solutions that supported small firms, encouraged cooperation among the enterprises, and provided collective services to the sector as a whole rather than selected, individual firms.¹⁸¹

¹⁸¹ These weaknesses include: 1)the importance of SMEs to the industry; 2)general underinvestment; 3)poor working conditions and wages; 4)no introduction of new technologies into the production process; 5)need for increased design input and productive specialization; 6)need for marketing strategies and cooperation among producers; 7)structure of the retail sector; 8)lack of collaboration in production; 9)inadequate training for both operators and managers; and 10)poor management (Roberts

The foundation stone of the NCC strategy was to encourage firms to produce for more specialized, quality driven markets; effectively removing them from the low quality price-driven markets that were being lost to Asian and North African producers. The central proposal was the establishment of the Nottingham Fashion Centre which would have certain facilities for encouraging networks among the sector's economic actors (Totterdill, 1989). These included: 1) a permanent showroom to bring potential buyers to the area; 2) regular exhibitions that were aimed at giving small firms the opportunity to mix and mingle which would eventually encourage long-term collaboration among small firms; 3) a computer--based sourcing register that provides information on local sub-contractors' capabilities and supply availability; 4) a homeworkers' register that would match women seeking home work with employers that offered the minimal acceptable standard conditions for home employment; and 5) a long-run strategy to develop technical and market research facilities for use by local producers and to allow the Centre to offer advice on fashion trends. The Centre would be based on a similar initiative created earlier in the London borough of Hackney. Established in 1984, the Fashion Centre was visualized as a resource for the industry, to promote local designs and to bring people in the industry together. Totterdill (1989) suggests that this strategy, given its focus on small firms and the provision of collective services, could be considered

et.al. p. 148 citing Trent Polytechnic (1983) Nottingham Local Economy Study: A Report, Nottingham: Trent Polytechnic).

a strategy toward flexible specialization; albeit an unconscious one.

Although the Fashion Centre would provide a range of services to the textile industry and encourage the restructuring of production by stimulating new forms of interfirm relations, it also represents an important initiative to institutionalize a network among sector and local actors. This network could be used to inform and adapt the services offered by the Centre as well as create an ongoing dialogue between these actors, which might present an important fora for learning and building new relationships in the area of local governance. In particular, the centre's advisory structure was designed to ensure the participation of local councillors, trade unions, employers and local experts (academics) in the management and direction of Centre, and thus indirectly on the management and direction of the industry.

The principle trade unions involved were the Tailor's and Garment Workers Union (now GMB), a representative of which had also been involved in the setting up of the Hackney centre, and the National Union of Knitwear and Hosiery Workers (now KFAT).¹⁸² During these early years, however, specific sector representation was available in Nottingham. Employers were represented by individual business leaders who were selected on the advice of the Chamber of Commerce and the academics came from the Polytechnic. The objective of this structure was

¹⁸² A third union, Transport and General, also shows up from time to time and the TUC, the largest British trade union, also has a regional office in Nottingham and a textile subdivision.

to promote consensus concerning development goals and greater legitimacy for future local government intervention. Moreover, firms would have access to the Centre only if they first agreed to the adherence of a code of conduct which included such clauses as union recognition, equal opportunity, and certain health and safety standards.

The bulk of the funding for the establishment of the Fashion Centre came from the central government's Urban Programme. At its inception in 1984, the Fashion Centre was a set up as a limited company within the Lace Market that would be initially funded through local and central government funds for three years until it would be self-funding. The centre was also the first NCC initiative to win support from the EU, a grant of £19,000 from the ESF to support some its training programs, after many years of unsuccessful efforts to tap into Community sources¹⁸³ (Nottingham Arrow, Oct. 1984).

In its second year of operation, the Centre decided to focus its attention and resources to help firms deal with changing market demands and help them grab new market opportunities; in particular this meant providing consultancy and advice in areas of design, product quality, technology, and increasing flexibility, especially to help vulnerable firms who are highly dependent on orders from a small number of retail firms (Nottingham Arrow, January 1986). With regards to its other services, however, certain problems soon became

¹⁸³ This suggests that areas with well-built up public-private networks, supported by the regional government structures (central or subnational), are best able to maximize European funding (hypothesis 4). See chapter 7 for an exploration of this in detail.

evident. Buyers were not coming to the display features in Nottingham. The monitoring system, particularly pertaining to the code of conduct, had been employed in an ad hoc rather than thorough and consistent manner (Totterdill, 1989). As noted previously failure is a part of learning, thus in response to these shortcomings, the Fashion Centre changed strategies and started making visits to meet buyers in London and abroad.

By the end of the second year, these problems were not sufficiently solved and, as a result, the Fashion Centre underwent a number of changes. The original limited company was wound up and the Centre was reestablished as a local government department. The new centre would provide designer studios, managed manufacturing workspace, showroom facilities, and a textile and clothing library for research. Other services include consulting and business advice, training partnerships with private companies, and facilitating links between the Centre and companies, education institutions, and other relevant institutions to meet the needs of local industry. Currently, the Centre receives 60% of its finances from renting spaces and the city provides the other 40%.

The Fashion Centre has had its successes and failures. The successful work of the Centre, according to Totterdill (1989), stems from the transformation of its original function from a showroom to a networking institution that creates strong and regular ties with all important economic actors involved in that industrial sector including the local polytechnic department of fashion. The Fashion Centre has also

developed European links as well with textile areas in Alicante, Dusseldorf and Amsterdam. As an institution, the fashion centre is still an important actor for the Nottingham textile industry. "Everything comes through here [the FC], all the textile and clothing initiatives. Nothing gets passed in the sector without going through the Fashion Centre. Its the focal point for industry assistance--for the city, the county, for the whole industry."¹⁸⁴ Crewe and Forster (1992) discovered that 70% of the firms in the Lace market have used the Fashion Centre's facilities. Their study found that the centre's biggest contributions were providing, firstly, advice on sourcing, business contacts, and marketing advice especially for those firms trying to move out of older markets into newer, higher quality markets, and, secondly, a place for nurturing promising designers and new manufacturers.

Specifically:

In many ways the Centre has established an effective information system which one firm felt had effectively replaced and remodelled the networks of past decades, "Old time entrepreneurs used to go to the clubs on Victoria Street, It was an old boy network. They also went to the Chamber of Commerce. The Fashion Centre has done a good job in replacing these, its more accessible." (Crewe and Forster, 1992, p.62)

Although the Fashion Centre has generated closer links between the subnational government agencies and the industry permitting more interactive policy formulation aimed at precise problems and greater consensus regarding development goals and a greater legitimacy for political intervention, the termination of the advisory structure meant the removal of a

¹⁸⁴ Interview 22.

tangible institution; a fora for regular dialogue and potentially for learning. Although it has provided clear benefits to the local firms in the Lace Market, recent attempts by the County and the DTI to build alternative fashion centres in the East Midlands suggests the limitations of such a local, limited institution. I will come back to this point in section III. The transformation of the Fashion Centre from, arguably, an industrial fora to a local government department underscores the institutional weakness of the private sector, which lacked clear identifiable collective territorial agents that could effectively forge an institutional understanding and a common purpose. The public sector took the leadership role, provided a structure and initial resources for dialogue, but the private sector did not respond and a local sectoral network was not established. Consequently, the rest of the policies pursued by the NCC relied primarily on public resources and public leadership.

This reliance on public resources is demonstrated in Nottingham's second institution building initiative--the creation of Local Action for Textiles and Clothing (LATC) which is a network of British local authorities who are active in helping out their local textile and clothing industry. LATC began informally in 1983 as a means to exchange ideas about building fashion centres between officers from Hackney, the NCC, West Midlands County Council, and the Greater London Council (now defunct)¹⁸⁵. In 1985, Nottingham hosted a

¹⁸⁵ Note the particular importance again of public networks for the design of centres meant to assist particular industries; more evidence of the private sector's institutional weakness.

conference for all local authorities with a strong textile presence. This conference represented the formal creation of the LATC as a membership organisation. The LATC's principal function is information exchange through seminars, publications and an enquiry service and has expanded its lobbying functions to the national and European levels. Totterdill (1992) suggests that the LATC offers an interregional coordination role that can potentially counteract the fragmentation of the textile areas and the lack of regional structures which often serve as key industry advocates in other European countries. In 1992 the LATC was nominated by the European Union as the group responsible for coordinating British participation in RETEX, the European programme for textiles and clothing (Nottinghamshire County Council, 1992). Thus, it was LATC who provided the European Commission a general agenda for the operation of its RETEX programme (chapter 7) in the UK.

I-B. INITIATIVES ENCOURAGING STRUCTURAL ADJUSTMENT

The institution-building initiatives were part of the overall strategy to encourage structural change in the textile industry by creating an important dialogue among sector actors, institutionalizing that dialogue, and hence build an infrastructure that can encourage and then later support structural adjustment. Other local government policies were aimed at encouraging specific changes within the industrial structure to help the industry modernize, and concurrently,

embed it more deeply into the local economy. Many of these activities did not require collective action; the public authorities could pursue them fairly independently. The two strategies under this category were the establishment of designer workshops and the dyeing and finishing initiative.

The first strategy aimed at strengthening and improving the industrial sector was the promotion of textile design through policies devised to add an important layer of small designer firms to the industrial structure. This was done by offering workshop units near (and later inside) the Fashion Centre (fashion enterprise workshops) to firms chosen through an interview process and by offering rent and interest relief to help start-up designer firms. The Fashion Enterprise workshops provided workshop space on a monthly rental, easy-in, easy-out basis, to give a boost to designers who did not have adequate capital to start-up independently. The rents are not subsidized, however, but let on market terms. The advantage comes from the short-term leasing arrangements, proximity to other firms, and the accessibility to the shared services and facilities of the Fashion centre. The funding for the loans was provided under the Urban Programme. Since the act stressed the need for the loans to assist firms who contributed to product innovation and product development, design firms easily met the eligibility criteria. The Crewe and Forster study (1992) discovered that this nurturing of promising new designers is considered to be an integral contribution to the overall economic health of the industry.

The second strategy was aimed at the restructuring of a

specific subsector of the industry; dyeing and finishing. This initiative directly resulted from the general information networks existing during the time. The National Union of Hosiery and Knitwear Workers (now part of KFAT) provided the city with a list of textile and clothing firms believed to be in difficulty; many of which were dyeing and finishing firms. To preserve this crucial subsector, the NCC furnished an interest relief grant to assist the management buyout of a company in receivership. While this helped the firm survive, the action itself did nothing to address the structural difficulties plaguing the subsector including: overcapacity, a decline of the overall level of orders and the run size of the orders given, and large price increases in essential utilities such as energy and water. Addressing itself to these problems, the NCC hired two consultants to examine current best practices in this subsector and identify new market openings. Additionally, firms were encouraged to hire their own consultants under the DTI's Business and Technical Advisory Services Scheme. Ten firms followed this advice (DOE, 1990a). Then the city helped these firms put together the finances to implement the findings of the DTI's consultancy using the UP's business support programme. The intention behind this was to help firms cut production costs by increasing their efficiency and to help them move into more sophisticated markets as a way to cope with the problem of overcapacity.

Although these policies did successfully strengthen the local industrial fabric, they were limited to assisting a few

important firms, and as opposed to creating enduring institutions which could support firms adapt to changes over time. The lack of a networking structure meant that city policies were limited to what they could with their own resources or with other public resources that they were able to gather together.

I-C. TRAINING AND BUSINESS SUPPORT

The final set of policies pursued to encourage industrial restructuring fall under the heading of service provision. This includes the provision of vocational training and business support.

Despite the general unemployment problems and the long-term contraction of the industry, the textile industry faces important skill shortages. The sweat shop image has been a key disincentive to encouraging youths to view the industry as a potential career choice. To counter these problems, training initiatives, which could supply multi-skilled machinists to the industry, were pursued. The Clothing Operatives Training Scheme (COTS) was implemented in partnership with schools, to help improve the overall image of the industry and help students build potential career paths as clothing and textile operatives. The scheme, influenced by a similar programme run by the West Midlands County Council, who also collaborated in its development, had some early success but eventually was undermined by changes in the Central government's training

programs.¹⁸⁶

Changes in national training policies also had a direct effect on an important partnership set up between the NCC and the industrial training boards, KLITRA and CAPITB. During Phase I, the local authorities were key actors in delivering the central government's training policies and for the textile industry it was done through formal, financial partnerships with these two Industrial Training Organizations (ITOs). COTS, for example, was implemented through the Fashion Centre in partnership with CAPITB. This situation changes dramatically in phase II.

Finally, business support programmes, in the guise of grants to firms, were also used to assist the industry, albeit indirectly. There are three types of grants which local authorities can offer: rent relief grants, interest relief grants and industrial improvement grants which are channelled to politically designated areas which included the Lace Market. While these funds are provided for business generally, priority was given to textile and clothing firms as the cases of design firms and dyeing and finishing firms above demonstrate. Because the grants are part of the Urban programme, they require prior approval from the DOE, "Officers know basically what will and will not be approved."¹⁸⁷ A study undertaken by the DOE (1990a) found that between 1984-1987, 67 firms were assisted through the Business Support fund of which 16% later failed. Given that the UK business

¹⁸⁶ See Marsh (1992) for an analysis of these changes.

¹⁸⁷ Interview 23.

failure rate is 40-45%, this is considered a great success. Of the 21 textile and clothing firms that were assisted and survived (31% of all firms assisted), employment increased from 344 to 517 jobs.

Almost all the funding used to pursue all three policy areas came from the Central Government through the Urban Programme. The DOE funds 75% of the programme and the local authorities 25%. The NCC, serving as a broker, had to build bridges among area actors and government funding to see its policies pursued. The lack of a collective organization of textile and clothing employers undoubtedly weakened the endeavours as the NCC never had direct means to network among areas businesses outside of going to each firm, one by one. One observer even suggested that it was the lack of business input that undermined the initial Fashion Centre strategy.¹⁸⁸

Although there was an existing textile and clothing network among industrial organizations, most of the actors involved were not local in orientation. Furthermore, this policy subset was outside the mainstream economic development network; thus the participation of the mainstream actors, such as the Chamber of Commerce and the DOE, was accomplished through the NCC in its role as broker. The NCC, however, relied as much on other local governments through LATC for provision of information and innovative ideas as on the associations. "Associations provide little bits [of

¹⁸⁸ Interview 22. However, another observer believed that the difficulties lay with the initial choice of director (Interview 39).

information] which must be put together, "¹⁸⁹ again stressing the brokerage role played by the local authorities.

For the restructuring and service-provision initiatives, the NCC played a key brokerage role between firms and funding providers (Government Departments and the County Council). Unlike the institution-building initiatives which attempted to create a specific textile support network, the restructuring and service-based initiatives were pursued primarily by the NCC using its position as intermediary between various actors to gather enough resources to successfully see through its own policies. Although these policies did have some degree of success, they did not serve to build a stronger local infrastructure. Thus policies to help the industry remained in the public sector, private sector leadership had not emerged. In Prato, alternatively, multiple agencies provided policy leadership resulting in a wider range of policies that provided overall institutional support for the industry, rather than supporting the odd key firm.

During this period, the County's involvement in the textile industry was minimal, entering only as a silent partner to some of the city's initiatives. The Labour Party took power in the County Council in 1981. Although it gave a high priority to general economic development strategies, their activities were focused on organizational change (the establishment of a new Economic Development Unit to assist a new Economic Development Sub-Committee) and the provision of more traditional economic development strategies such as land

¹⁸⁹ Interview 24.

development (Roberts, et. al. 1990). The new Labour council expanded into two new development activities; financial assistance through loans, grants and equity finance, and the promotion of inward investment.

During this period, the county's main assistance toward the industry was done as a partner to the city's initiatives. Since only the county has the ability to finance direct investment in an individual company, the city required their support to help the dyeing and finishing firm accomplish the management buyout discussed earlier. The county provided a loan that was linked to the city's investment relief grant. While this was quite a successful city/county collaboration, these partnership efforts occurred quite infrequently and cannot be seen as the norm (Totterdill, 1989, p.512).

The county's policies in this period were without strategic direction, and overtime, county councillors began to question the effectiveness of their development strategies. The reelection of Labour in 1985 strengthened the county's commitment to economic development which is illustrated by the promotion of Economic development from subcommittee to full committee status and increased development spending. The county also started to move toward a sector based approach to policy. This was accomplished with the creation of a separate research unit, directly funded, within the Economic Development Unit whose remit is to study the textile and clothing sector among other sectors. In the second phase, the county enters directly into the field industrial policy.

II. PHASE II (1988-1992): COUNTY LEADERSHIP

During this period, the momentum is dropped by the city and taken up by the county. Additionally, the institutional landscape shifts and slides as certain actors exit or change and new ones enter. These changes coupled with the increasing financial constraints emanating from the Central Government have had a profound influence on the shape of the institutional environment and the institutional capacity of local authorities.

In 1987, the Conservative Party was returned to power in Nottingham for 18 months until they lost a 1988 bielection. Although the policy momentum slowed dramatically as a result, the Fashion Centre was left in place able to continue with its work (Totterdill, 1989, p.510). With the return of a Labour council came new attempts to revitalize the a textile strategy, but by now the inadequacies of the earlier policies coupled with central-local hostilities had begun to take their toll. Previously, the NCC had relied on two mechanisms to pursue policy--informal network linkages and UP funding. In this phase, Central policy changes required the authorities to set up formal, legalistic networks with the business sector, in which local authorities are no longer a majority partner.

The alterations in the NCC's policy development mechanisms have consequently led to a change in the types and scope of initiatives generated. Rather than pursuing strategies that assisted the industry directly, like the Fashion Centre and other early initiatives did, policies were

now part of broader development schemes that included the industry but did not focus solely upon it. More precisely, the goal was no longer to encourage the growth of the local governance institutions which could guide industrial adjustment, but simply to make sure some firms survived. In particular, help for the industry was now translated to help for the Lace Market; which, as shall be seen further down, is, at best, a paradox, at worst an oxymoron.

As the city struggled with the increasing limitations emerging from Central policies, resource constraints and a shifting institutional landscape resulting in a minimal textile strategy, the better-resourced and better bounded¹⁹⁰ county, alternatively, becomes particularly innovative and active in their support of the industry. In 1989, the County sponsored a survey of the textile and clothing industry. The research identified the need to revitalize the sector because of its general importance to the county, especially in terms of job provision (chapter 4). Simultaneously, the county's economic development unit was being reorganized; industrial strategies were now to be stressed and clothing and textiles were to be a key target industry. A consultant was commissioned to produce an overview of the state of the industry and the possibility for the future. Notably that consultant once worked for the NCC and had been a key internal

¹⁹⁰ Boundedness refers to the fact that some of the largest and strongest British textile firms (i.e., Cortaulds, Coats Viyella, Meritina) are located in the County. Policy directed at these firms could indeed influence the structure of the industry as these firms could in turn generate changes in both their competitors and their subcontractors.

actor during its initial foray into textile policy and the creation of the Fashion Centre. The significance of this personnel changeover will be discussed further on. Where once the County was a smaller partner in the main textile initiatives, in this phase, the leadership roles have reversed and the city, although still involved, is often the smaller partner of the more proactive County policies.

As in phase I, we can subdivide policy initiatives into support services, institution-building, and industrial restructuring.

II-A. TRAINING AND BUSINESS SUPPORT

In Nottingham, business support services were a continuation of the grant programmes. As in phase I, textile firms remain a priority. For the 1991-92 financial year, of the 15 rent and interest relief grants awarded, nine or 60% were given to textile and clothing firms. As of April 1992 of the 92-93 financial year, three had already gone to textile industries.¹⁹¹ Three industrial improvement grants were also given to textile and clothing firms in 1992-93; two of which were located in the Lace Market.

However, this business support programme is on its way out. Since the central government has replaced the UP with city challenge¹⁹², rent or interest grants are unavailable

¹⁹¹ Interview 23.

¹⁹² City Challenge has since been replaced by the Single Regeneration Budget.

from 1993. Thus the main support provided to small businesses in the textile and clothing industry will come from the Fashion Centre. Business support, which has been an important tool used since the beginning of the sector strategy, is now defunct as a result of central government funding changes.

City Challenge, which represents an economic development partnership between the City and County councils, NDE, Inner City Enterprises plc, British Rail, Boots Properties, the Lace Market Development Company (see below) and other private sector, community and voluntary organizations, does include some provision for the textile industry. The five-year project provides 37.5 million pounds to regenerate two depressed areas near the Lace Market through the redevelopment of industrial and manufacturing areas and the improvement of housing. Although City Challenge has multiple development objectives, some money was used for textile workspaces and training people for jobs in the textile industry. Although the Lace Market was excluded from the city challenge bid, the LMDC along with the City, the County and local developers were allowed to extend their operations into the challenge areas to help match the employment needs of people in the challenge areas with the textile industry's needs for factory and workshop space. The overall effect would be the expansion of firms into the challenge area which borders the Lace Market. This policy, while helping to provide workspaces and a labour force to the industry, is no longer about restructuring, governance or institution-building, just trying to hold on to some of the firms and provide jobs for some of its citizens; well-

intentioned policy but limited in terms of the longer-run survival of the local industry.

General business support is also provided by the county which includes business and financial advice, export marketing, trade missions, loans, general grants, management advice, marketing, provision of premises, promotions and exhibitions, training provision, and careers advice. A fashion show was organized between the County and the North Nottinghamshire TEC. Of particular importance is the county's inward investment activities which brought in two real coups: Toray industries, a Japanese textile firm located in the north of the County and Dress Black, a wedding dress firm, was brought into the Lace Market. Another support initiative, which is quite pro-active but remains in the early stages, is the investment in a modern IT infrastructure which can be used to create facilities for the textile industry. As in the case of Prato, the objective of providing an IT environment is to link up retailers with designers and subcontractors, to further enhance flexibility, information flows, and just-in-time production methods. However, where the IT project in Prato was a collective community effort which was arguably private sector led with strong public support, in Nottinghamshire if it emerges, it will have been stimulated predominately through public activity.

The County has also been active on the European stage to provide a greater range of services to firms. The county joined ACTE, a European network of textile and clothing areas (see chapter 7) and has been a frequent participant as well as

sponsor of conferences on European textile and clothing regions. The economic development officer in charge of the industry at the time of the interview was negotiating with CITER, a renowned Italian Fashion Centre, to have the sole access rights to its market and fashion research and information. Trips abroad are made as well in the search for European partnerships and new markets for local products.

In the area of human resource policy, successful recruitment of skilled workers has consistently been of great concern to the industry. In response to that need, the Fashion Centre in partnership with the County, the TECs, and the Industrial Training Organizations, the FEs as well as other private sector organizations and firms have instituted an annual careers exhibition, *Stitching Up Your Future*, since 1990. This policy hopes to draw attention to the training and career opportunities available within the local textile and clothing industry. Although this is a relatively innocuous policy, it does represent the only truly functioning local network concerned with an important governance issue (the local labour market) that has emerged around city initiatives that is still thriving. Paradoxically, it highlights in a clear, almost glaring, manner the inadequacy of the local institutional infrastructure.

II-B. INSTITUTION-BUILDING

To cope with the increasing infringement of the central authority on local financial and policy discretion, the city

has responded by building up several formal networks to pursue economic development. One respondent noted: "The formal, legalistic company structures have really been forced on us because of the spending restrictions."¹⁹³ Within these formal companies, the local authorities are minority partners.

The first of these network-building institutions to be established was Nottingham Development Enterprise (NDE). This organization was established in 1987 in response to fears that the Central government might set up an Urban Development Corporation (UDC) in the city¹⁹⁴. To avoid that possibility, the NDE was set up as a private company, jointly funded by the NCC, the County, and the private sector. The organization's godparents are the City, the County and the Chamber of Commerce. The board is made up of one city councillor, one county councillor, and 11 businesspeople including representatives from the major area firms such as Boots, Plessey, and British Telecom as well as the two local universities. The central government has also been involved. One of the company directors was also a regional director of the DTI and leader of the city action team (CAT), a central government sponsored inner-city initiative. In the past, the NDE had an arrangement that whoever chaired CAT would be a director of the company effectively linking this local development organization into centrally-generated development

¹⁹³ Interview 21.

¹⁹⁴ This was seen as a particular threat because UDCs focus on property development, and have the power to remove planning powers from local authorities, one of the key resources they have left for guiding economic development.

institutions.

The aims of the NDE are to improve the economic social and general environmental conditions of Nottingham by fostering public-private networks. "Its role is to think up new ideas about the social and economic structure of the city, work them through feasibility and then launch them."¹⁹⁵ It has spun-off around 10 new network-building organizations including Conference Nottingham, a marketing bureau for the area as a conference destination, the city challenge partnership which bid for city challenge, and the Lace Market Development Company (LMDC-see below). The NDE furnishes linkages between the public-private sectors for general development purposes and then helps to match up new partnerships in specific policy subsectors. The success of the NDE suggests that regarding economic development generally, there does exist an effective network structure among certain key actors (identified in chapter 4) which includes local authorities, the Chamber and Government Departments; a network which is marked by a general absence of interest in the textile industry.

However, the NDE did launch the LMDC to deal with the Lace Market which includes the textile industry. The LMDC is a public constituted, private limited company set up in 1989 of which 50% is owned by the two local authorities and 50% by private development companies and has an independent chairperson, the University Vice Chancellor. There are eight directors which include city and county councillors, the LMDC

¹⁹⁵ Interview 38.

chairman, the private companies and two observers, the regional director of the DOE and the Lace Market Manufacturers Association. The company is primarily an enabling company. The objectives of the LMDC is "to secure the overall regeneration of the Lace market through a partnership of the private and public sectors" (NCC, 1989). The LMDC was instructed to promote development and where appropriate, to undertake directly the development of sites and renovation of buildings by encouraging private sector investment and to seek public grants. To achieve this goal, the organization was to invest in profitable development opportunities in the Lace Market and then reinvest the profits into non-profitable but necessary schemes to preserve the manufacturing base of the area, thus fulfilling the objectives of the overall Lace Market strategy. The LMDC is a crucial institution for carrying out the city's Lace Market development strategy (LMS), the NCC's principle textile initiative. This strategy has run into a large number of difficulties.

The Lace Market, the historic home of the textile and clothing industry, has long been the recipient of government assistance having been designated a conservation area in 1969. In 1973, the NCC initiated a regeneration scheme for the area to stem the decline and deal with the large number of derelict sites. In 1976, the Conservation Grant Scheme was instituted in partnership with the County and English Heritage. This was a twin-track approach to support both conservation and industrial improvement. In the 1980's, grant aid increased concurrently with the surge of the property market. Many

buildings were refurbished and ultimately converted from industrial usage to office space. By the end of the 1980's, the increased speculation of property in the Lace Market area was recognized as a serious threat to the industry who could not afford the large rent hikes that would inevitably result from the increased property activity. In 1987, a study commissioned by the NCC from Peat, Marwick, McLintock noted that the Lace Market held great promise for economic development in the city. In 1988, the NCC in partnership with the NDE and the DOE hired Conran Roche to do a study of the Lace Market and the LMS was developed in 1989 from the recommendations in that study.

The LMS recognizes that support for the textile industry is one part of an overall strategy for the revitalization of the area. Specifically, the three main goals of the LMS are to transform the Lace Market into:

- a 'centre of excellence' for the fashion, clothing and textiles industry;
- a location of major new developments bringing inward investment to Nottingham;
- a new focus for leisure and tourism (Lace Market Development Strategy, NCC, 1989).

The Conran Roche report suggested that the textile industry could not generate sufficient value in the buildings to adequately restore them and therefore suggested a mixed approach. On one hand, some office development would be supported and then the profits from this could be used to support the textile workshops; thus providing the small, quality-driven firms, which needed the support and held the most promise for the future, the security of tenure they required. The LMDC was created to implement the scheme because

it is a private sector company and thus is not subject to the government regulations on local authority activities designated in the 1989 Local Government Act. Along with the company, the NCC also envisioned using planning powers, compulsory purchase powers, direct public investment in environmental and road improvements, and support from the DOE through city grants and UP funding as well as aiming for increased European funding all to help the area (NCC 1989). Notably, the major actors regarding the Lace Market included primarily the NCC and private developers. In order to guarantee that the concerns of the industry were voiced, the NCC helped organize the Lace Market Manufacturers Association (see chapter 4), which has observer status on the LMDC board. Finally, as in most local activities, a Central Government representative was in attendance.

The LMDC ran into difficulty from the start. Since the strategy which identified the profitable development opportunities was publicly issued to comply with the 1989 Local Government Act six months before the company was formed and nine months before the staff was in place, most of those opportunities were bought up by the private sector and then offered to the LMDC at double the original price. Fortuitously (perhaps), the property market began to fall. So although the LMDC could not pursue the profitable office development vital to gain the resources to assist the industry, that fall in the property market also removed the threat to textile buildings, at least momentarily, and ideally would help bring down the building prices sufficiently to realize the LMS.

The Central Government was another obstacle to the successful implementation of the strategy, especially in three areas. First, the 1987 Use Classes Order on planning regulations seriously weakened the planning powers the NCC could use in pursuance of the strategy. Under the previous planning law, light industry (which includes textile manufacture) and office use were categorized under two separate use classes for the use of a specific building. To change between them required specific planning permission from the local authorities thus giving those authorities the power to prevent the conversion of many Lace Market buildings. When the central government changed the use class order, they abolished the line between these two categories thus removing the need for local planning permission to undertake such conversion. The inability to protect buildings represents a major flaw in the strategy because most of the textile firms are in rented accommodations and thus continuously vulnerable to losing their workspace. The use order can only be circumvented by the use of Article 4 directions in the Planning Act which allows local authorities to remove permitted developments if there is exceptional justification.

The NCC did try to stop specific conversions believed to be vital to the strategy. However, in this case the DOE ruled that exceptional justification was not demonstrated and thus the DOE refused to confirm the NCC's use of this directive which effectively negated it. The result of this decision, according to Planning spokesman John Lynch, "...appears to deprive us of one of the tools of the strategy although there

are other means of pursuing it" (cited in Tresidder, 1991).

After the refusal, the NCC then attempted to buy the building using a compulsory purchase order with the intent of converting it into textile workspaces. This was appealed by the business attempting the reconversion. The appeal was allowed by the DOE, thus effectively stopping the strategy in its tracks. In addition, the NCC was ordered to pay the costs of the appeal process. The strategy of government to by-pass local authorities worked against Nottingham's interests, severely constrained Nottingham's development strategy, and cost them a pretty penny for their efforts.

The lack of support by the DOE in all conflicts that arose as a result of the LMS is ironic given that the strategy itself was an attempt to implement the findings of the Conran Roche study which had been funded, to a great extent, by the DOE. However, given the legislative changes that removed certain planning powers, without government support of their decisions, the strategy stagnated. One respondent noted that the DOE prevented the placement of the Lace Market into the City Challenge bid. Generally, the DOE disapproved of the Lace Market workshop conversion schemes; enough had been done and it was now time to let the market takeover.¹⁹⁶ Much of central money now that is pumped into the Lace market supports tourism initiatives.

A final problem encountered was bureaucratic; within the NCC itself. The planning side of the Development and Planning Unit has been more supportive of the industry than the

¹⁹⁶ Interview 27.

development side. Additionally, the textile strategy pursued by the Development Department (business support, accessing European funding) and the Lace Market strategy (a Planning Department initiative) have been kept separate. At the time of the interviews, some respondents noted that organizational changes were being initiated to try to bring these elements together, but things were only in the early stages.

Despite these setbacks, the LMDC did try and find alternative routes to meet its objectives and the road it found was, again, formal institution-building. The LMDC was instrumental in forming the Lace Market Heritage Trust, a charitable trust, to try and bring into the Lace market funds that were not available to either the company as a private sector organization or the city as a public organization. The LMDC chairman is honorary secretary to the Trust. The LMDC also tried to establish a Lace Market Retailers association to provide a single voice to the area's retailers regarding the future of the Lace Market, but the organization did not last.

The attempt to carry out the Lace Market Strategy can be seen as a study in institution-building. The institutional spin-offs to encourage networking within policy subsets have been substantial--from the NDE was born the LMDC which spun off the Lace Market Heritage Trust and encouraged the creation of the LMMA. All of these organizations were created to join up a variety of public, private and voluntary sector actor to pool common resources to pursue common goals. Given the legal constraints on one type of structure, each organization then created new institutions to maximize their ability to collect

resources. The LMDC also tried to organize the Lace Market Retailers to give a collective voice to that particular sector but was not successful.

On a more positive note, the LMMA has become a crucial manifestation of the shared group identity of the Lace market manufacturers. It is only after its creation, that we see local collective initiatives, albeit small ones, emerging from the private rather public sector. Having created a common identity based on the Lace Market location, these firms now have a shared Lace market logo that is used on letterheads and labels as well as a factory shop, set up by a local firm, that provides a shared retail outlet for all lace market manufacturers (Crewe and Forster, 1992).

Although the pursuance of the LMS has been a study in institution-building, it is also clear evidence of the decline of local power and the constricting hand of Central Authorities. The city's early policies were quite ambitious and proactive, aimed at enhancing the local institutional architecture which could aid a painful restructuring process and then remain as an essential component of longer-term economic governance. These restrictions have forced them back to embracing a minimalist, reactive strategy; doing what can be done to assist some productive area firms (those that have restructured) to keep their workspace and workforce, but there are no longer any attempts to help them cope with the global changes which present the true long-term threat to their prosperity.

The loss of proactive loss has been compensated some what

by the entry of the better resourced, better bounded county into this policy domain. The County's central initiative has focused particularly on industrial restructuring.

II-C. INDUSTRIAL RESTRUCTURING

The results of the analysis undertaken by the County's hired consultant on the textile and clothing industry showed that the methods of production currently used by companies were inappropriate for expansion into the export sector and thus fixed the industry to the UK market with its limited customer base and strong retail sector. To better understand how the county might assist the industry, a party of officers, local manufacturers, trade unions, NEDC (the National Economic Development Committee), academic representatives and training agents went on a learning expedition to Aschaffenburg, Germany, where there is a strong clothing industry and vocational training school. They discovered that their German counterparts did not invest more than Nottinghamshire firms and thus, with comparable resources, firms in Nottinghamshire could compete at a similar level to the German firms¹⁹⁷.

The Work and Technology Programme emerged from the

¹⁹⁷ There are a number of cultural differences between Germany and the UK which might hinder (but not necessarily undermine) Nottinghamshire initiatives. In particular, the Germans receive obligatory training before entry into the factory and the training is universal (providing broad skills) and lasts for two years. In the UK, training (if you can call it that) consists of one week sitting next to a professional, a situation which tends to promote a high turnover rates and work absenteeism; costs which are often overlooked by accounting techniques used to assess Taylorist work practices.

findings of that trip. This programme would provide the necessary technical support to firms that wish to move from mass production methods of work organization to a teamworking framework which is better suited for higher quality good production. The programme is primarily funded by the County, the two TECs, and with some smaller contribution by the NCC and other district councils. Due to the uneasy political situation--the bickering between city and county which has been exacerbated by the review of unitary status---the NCC was only brought in as a minor partner so that the County would maintain full control.

To implement the policy, a network of technical and training staff at Nottingham Trent University, the Fashion Centre, and a few further education colleges has been established; representing a potentially important training network. The funding partners meet every two months. Every second meeting of this steering group would be followed by a wider advisory group which included trade unions, industry associations and participating companies. Hence, an integral part of this programme is institution-building, creating networks of local actors in pursuit of goals regarding the governance of industrial restructuring. The programme, initiated in May 1992, centres on the following objectives:

- To raise awareness of new production methods through company visits, seminars and publication of relevant materials.
- To create a technical databank, based on case studies of multi-skill approaches from clothing companies in several European countries and to use this databank to assist companies in the design and implementation of teamworking.

- To develop innovative training methods appropriate to new forms of work organisation, and to deliver such training through programmes designed in association with a range of local colleges and agencies (Totterdill, 1992, p.40).

Although the county would prefer to work with SMEs since larger firms usually have sufficient resources to help themselves, SME participants are the hardest to recruit from the public sector--they are highly suspicious and operate on the margins thus leaving few resources for change and innovative practices. Given these conditions, the project set out to gather a representative spectrum of companies in the pilot projects which could show by example the success of these practices and provide data for comparison and learning; to improve the policy as it moved forward. Personal solicitation would be used to contact potential SME participants. Although this project is a county initiative, it needed to resource the initiative by expanding the partnerships to the TECs and may further expand it to the East Midlands. The EU will be approached for matching funds to add value to the exercise.

Clearly, the Work and Technology Project, like the original Fashion Centre, represents an important initiative for the industry. First, it encourages industrial restructuring in terms of both modernizing firms to meet new competitive conditions and breaking free of the past restrictive retail structure by focusing firms toward export promotion. Second, it offers important incentives for institution-building and institutional learning on several

levels: 1) among local institutions through the advisory committees; 2) implementing the policy through a network rather than a centralized support structure which increases opportunities for experimentation, tailorization, and learning; 3) integrating training into the restructuring process; and 4) by designing a programme to encourage networking among the firms themselves, fostering further changes in the industrial structure.

Although these have been important attempts to build a local institutional environment with can effectively support industrial change and institutional learning, the initial learning process took on a personal rather than institutional character. Knowledge, ultimately, is contained in personnel. In this particular instance, the County's consultant, and later director of the Work and Technology Programme, was one of the key participants in the NCC in the design of the Fashion Centre and quite well known in Europe; having been a frequent visitor to important textile centres such as CITER. He was able to maintain the knowledge gained from the Fashion Centre experience regarding the Nottingham Textile industry, (and the understanding of why the early policies of the NCC were unable to achieve similar goals), and bring that local knowledge directly into the policy design. Institutional learning must start with an appreciation of personal knowledge. This example is excellent proof.

We now turn to the last section to make some initial conclusions regarding the role of networks, learning and institutions in Nottingham.

III. NETWORKS AND CONCLUSIONS

Although they remain highly competitive, the NCC and the County are still the central actors in the textile policy network. Table 6.1 compares the centralization figures for the general exchange networks with policy networks.

Looking at the centrality scores, only one conclusion emerges--no network has materialized in support of local industrial policy. The high total centralization score for exchange networks indicates that information is not shared among these actors but distributed through a few central points, notably the local authorities. The low score for policy networks indicates multiple but isolated policy networks which form around specific policies or projects; hence the diverse components of governance and the range of initiatives targeted at the industry remain unlinked and uncoordinated.

Table 6.1
**Centrality Measurements of Policy and Exchange Networks
 In Nottingham**

<u>Organization</u>	<u>Exchange Network Centrality</u>	<u>Policy Network Centrality</u>
NCC	100.00	50.00
County	95.65	50.00
Greater Nottingham TEC	84.65	50.00
Nottingham Trent University	78.57	50.00
CBI	78.57	5.00
DTI	73.33	45.24
DE	73.33	47.50
Chamber of Commerce	73.33	41.30
Fashion Centre	70.97	48.42
University of Nottingham	70.97	45.24
NDE	68.75	45.24
North Nottinghamshire TEC	66.67	43.18
KIF	64.71	47.50
CAPITB	64.71	45.24
KLITRA	64.71	43.18
LMDC	64.71	46.34
DOE	62.86	50.00
GMB	61.11	48.72
KFAT	61.11	43.18
LMMA	55.00	44.19
Total Network Centralization	64.%	11.93%

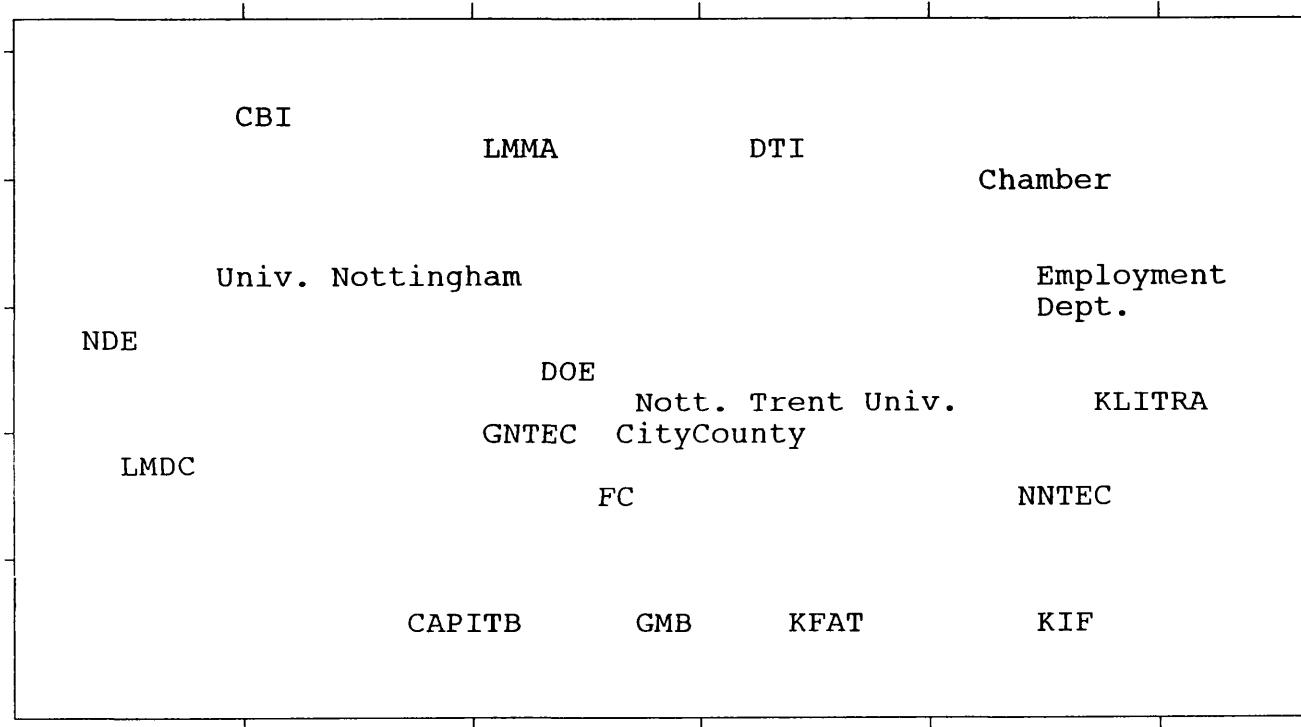
Comparing the Nottingham policy network centrality scores of the most central actors with those of Prato, this conclusion is strengthened. In Nottingham, the NCC, the County, the Greater Nottingham TEC, and Nottingham Trent University were given a score of fifty, indicating that interact with about half the range of actors within the policy process and participate in about half the initiatives. In Prato, the City, Region, three employers associations and the Chamber of Commerce all received scores of 100 in both exchange and policy networks meaning they are linked to all other principle actors and participate across policy initiatives. Hence, Prato possess a strong central network

which can integrate and coordinate the various resources, projects, and support mechanisms, and supports a collective local learning process. In Nottingham, conversely, a learning structure regarding the local governance of the textile industry is only nascent at best, and depends probably too much on public sector leadership and information brokerage.

The conclusions are supported by the results of multidimensional scaling¹⁹⁸ (figure 6.1) of policy networks. While the principle actors identified by the centrality measures do appear as the central network, no discernible pattern emerges concerning the placement of the other local institutions. Each organization participates only in the odd policy and thus are scattered haphazardly around the central actors. Within the policy areas, these groups remain unlinked as they do not interact. Hence, no real policy networks can be identified.

¹⁹⁸ MDS was used rather than structural equivalence measures employed to evaluate Prato's networks because it produced more interpretable results. Given the higher number of institutions in Nottingham, the block model is exceptionally large and difficult to interpret.

Figure 6.1: Policy Networks in Nottingham



To cope with this severe institutional weakness, both the city and the county concentrated on two types of policies; institution-building and providing services to specific firms or firm types (designers, dyers and finishers) which could be accomplished using only public resources. Table 6.2 looks at policies by type of network.

Table 6.2
Local Initiatives Toward the Textile Industry in Nottingham
by Dominant Network

INTERGOVERNMENTAL NETWORKS	PRIVATE SECTOR NETWORKS
1. Business Support 2. Training 3. Dyeing and Finishing 4. CSF Committee (chapter 7)	1. Training
INTERGOVERNMENTAL/PRIVATE SECTOR PARTNERSHIPS	INTRAREGIONAL FUNCTIONAL NETWORKS
1. Lace Market Strategy	1. Fashion Centre 2. Work and Technology Project

Again, the dominance of the public sector within the policy process stands out. In Prato, leadership was shared between the public and private sector. Even when private sector representation is more developed in Nottingham initiatives, it often comes through Quangos (TECs) rather than solely private sector representatives or, as in the case of the Lace Market Strategy, through private sector actors (property development firms) with no linkage at all to textile production.

Given the centrality of the public sector, one potential policy tool they could develop is that nodality; using their central position as a broker between the various institutions. There is evidence that they have, out of necessity, been

developing this role. One local authority respondent noted:

What we do is we know the Polytechnic has an expert in it and we will pay for experts at the Polytechnic to go and give consultancies for instance. So our role in many ways is a broker because that's what we're good at and capable of doing....We do quite a lot of things and its both a pragmatic approach to partnerships, its a way of getting things done, its a recognition of local authorities were never all powerful even if they thought they were....I say its more effective---you take people with you and get them to support your policy objectives. Its much easier to get the thing working properly than if your trying to impose the local authorities own model.¹⁹⁹

Given the lack of private sector leadership and the burden of increasing financial constraints, Nottingham has used its role as broker among various networks to try and encourage collective responses to industrial decline. During phase I, many of the policies were provided publicly rather than collectively and relied on informal input from various groups. The absence of collective representation of textile and clothing firms demonstrates a severe institutional weakness that constrains policy learning and development. The major lesson learned was pragmatism when dealing with central authorities. Since the centre maintained their hold on power and resources, and the local authorities were unsuccessful in encouraging alternative, horizontal networks, local authorities had to learn to work with in more constrictive, more central dominated structures in order to achieve at least a minimal textile strategy.

This policy environment (dearth of resources, growing central control) stunts policy learning. As resources declined, and no alternatives emerged from the private sector,

¹⁹⁹ Interview 21.

policy became oriented to those which could meet central funding criteria, which set increasingly tighter constraints on the types of policies which could be pursued. Thus, the ability to learn from problems and shortcomings of earlier policies to inform later policies was completely squashed as funding requirements drove policy design. In fact, the NCC's policies made a 360% turn--starting with basic policies such as site provision and ending with similar policies (the Lace Market Strategy was about site provision). The focus of policy moved from building institutional mechanisms to provide long-term support for industrial growth to maintaining appropriate workspaces for individual firms.

The County, alternatively, with greater resources, including the incorporation of key personnel involved in the original Fashion Centre and other phase I policies, seems to be building a learning capacity. The early evidence suggests that their policies have had some success encouraging the internal restructuring of firms to embrace team-working methods of production.²⁰⁰. In terms of the character of its relations with its partners, the County also seems to be promoting an environment where trust and knowledge can flourish. In particular, the County is known to delegate more responsibility, while the city tries to keep a greater deal of control over joint policies. One respondent noted: "They've [the County] got a much broader view of life. It may have something to do with geographicness. They don't see a need to

²⁰⁰ These initiatives have had a particularly good effect on the workforce as absenteeism, and worker turnover has dramatically declined (Interview 39).

own everything. They are much readier to share."²⁰¹ The ability to share signals a greater propensity toward institutional learning.

Although the county seems to be developing a stronger institutional infrastructure, it is still limited. One respondent, when asked about partnerships, replied:

They have been important but they're have not been partners on a regular basis. Partners have swapped and changed through it. There has obviously been individual partnerships with individual companies. Where we have tried to introduce teamworking or whatever into individual companies. There are 7 or 8 companies that we have close links with.²⁰²

Hence no central network has developed nor has private leadership been stimulated. Thus the public institutions still remain the leaders of the policy process; no thicker institutional infrastructure has yet developed in the area of local industrial policy.

This chapter has outlined the policy support generated to encourage industrial restructuring in Nottingham. These conclusions will be deepened in chapter eight when a direct comparison is made with Prato's experiences. The next chapter looks at how the EU has affected the local policy environment and local institutional capacity.

²⁰¹ Interview 38.

²⁰² Interview 39.

7. THE EUROPEAN UNION AND LOCAL INSTITUTION BUILDING

INTRODUCTION

The Single European Act and the Maastricht Treaty herald a new period in European Integration and an expanded interest in and financing of regional and local economic problems. As the EU has increased both its regulatory powers and its funding capabilities, local and regional governments have not been slow to organize at the European level. Through regulations, funding opportunities and so on, European integration is fundamentally altering local government's role and relationships with higher levels of government and other local political, economic and social actors because it is the main agency through which European programmes are channelled (Bennett and McCoshan, 1993).

This process of an increasing involvement in and orientation towards Europe in a variety of ways can be conceptualized as the Europeanization of local government. This chapter explores the interaction between Europeanization and local institution building in the field of economic development. Section I defines Europeanization and establishes some techniques for measuring it. Section II reviews the evolution of European regional policy, which has been the

primary instrument europeanizing local government. Section III looks specifically at the financing and implementation of the Community Support Frameworks in Prato and Nottingham and how it has directly affected these two localities. Finally, section IV looks at specific EU programmes toward the restructuring of the textile and clothing industry and their relationship to Prato and Nottingham. Sections III and IV examine the effect of europeanization on network-building, testing the hypotheses that strongly networked localities will better exploit European opportunities, but no matter the institutional starting point, europeanization should encourage the building and strengthening of networks and institutional capacity within localities.

I. DEFINING AND MEASURING EUROPEANIZATION

Europeanization refers to the increasing range of activities, programmes, networks and initiatives in which local government is involved that have a European dimension (Dineen, 1992)²⁰³. The increased involvement of local and regional authority in european-oriented activities is a function of two parallel and mutually reinforcing trends; the desire on the part of the EU to deal with subnational government and the desire on the part of subnational governments to deal with the EU. Subnational authorities' objectives for working with the EU are to enhance its resource base (finances, information, knowledge) in

²⁰³ Dineen was referring to the Europeanization of universities but his conception is quite suited to local government as well.

increasingly difficult economic times, and gain influence on the EU policy process in order to circumvent or roll back central government and European policies that undermine or constrain local government activities. The EU, concurrently, also has two reasons for deepening its relationship with subnational government: i) subnational government can provide the EU with necessary information concerning both policy objectives and the success (or lack of success) of policies which are already in process which can counterbalance the national biases inherent in the information provided by the national government; ii) subnational authorities can provide the EU with the institutional capacity it lacks to monitor and regulate the implementation of EU policies and regulations, especially in federal and regional countries when the laws, regulations, and decisions impinge directly on state or regional laws as well as national/federal laws (Goldsmith, 1993).

John (1994a) outlines four stages in the europeanization process²⁰⁴. The first stage, minimal europeanization, refers to local authorities who are only involved in information-related activities including monitoring, implementing and responding to EU directives and legislation, managing European information, and communicating this information to the community at large. Many local authorities have developed this capacity to some extent. For example, a 1992 study conducted in Britain found that around 60% of English and Welsh

²⁰⁴ I have altered somewhat the names John assigned to each stage, but the content remains the same.

authorities had hired staff specializing in European issues (Goldsmith, 1993, p.692).

The second stage, financial europeanization, refers to the ability to maximize european funding and use those resources to assist economic development. Local authorities most developed in this area are often objective 1, 2 and 5b regions. Related to this, the third stage, local networking, comprises the building of strong local linkages with other local organizations participating in the EU. EU funds can be used as an effective incentive to leverage private sector funds to further development projects (Benington and Harvey, 1994).

Table 7.1
Average Contribution of the Private Sector to the CSFs by
Country 1989-1991 (in percent)

Private Sector %	Total	Obj. 1	Obj. 2	Obj. 3/4	Obj. 5b
Country					
Germany	23.7	---	3.0 ²⁰⁵	0.47	47.3
France	17.4	8.7	26.6	0	29.5
Italy	12.2	6.4	49.8	0	49.6
Netherlands	9.2	---	24.3	2.7	5.3
Belgium	11.9	---	21.6	0.13	26.2
Luxembourg	7.2	---	0	0	21.8
UK	14.1	26.9	19.9	0	8.5
Ireland	27.7	27.7	---	---	---
Denmark	16.6	---	41.8	0	30.2
Greece	2.7	2.7	---	---	---
Spain	14.8	16.1	13.0	0	14.1
Portugal	6.5	6.5	---	---	---
EU12	13.8	13.6	21.1	0.36	25.8

Source: Author's elaboration of CEC (1992a).

Some crude indicators are available to measure the amount of participation of local actors in the European development process (table 7.1). Using the publication, The Community's Structural Interventions (CEC, 1992a), I created a regional data bank on the financing of the Structural Funds covering the years 1989-1991. We can operationalize local actor participation as the percent of private sector financial

²⁰⁵ Includes figures for 1989 only.

contribution to the CSFs²⁰⁶. The private sector was found to participate financially to some extent in the majority (84.7%) of all regional initiatives (CEC, 1992a). Compare this with private sector financial participation in the Integrated Mediterranean Programmes (IMPs), the first major implementation of the integrated approach (see section III), in which private capital was only involved in 28% of the individual interventions (Bianchi, 1992a, p.61).

Comparing these results briefly to the data available on the IMPs, an important finding emerges. Private sector participation in EU projects has not just increased in terms of the number of projects in which it funds, but it has increased as a percentage of overall funding. The overall mean participation of the private sector for the IMPs was 11.7%²⁰⁷, compared to 13.8% in the Structural Funds. To strengthen this overall trend, updated figures were available for the Portuguese CSFs expenditure (1989-93). According to data from the Ministry of Planning and Territorial Administration (1994), private sector contributions comprised 28% of total costs, which demonstrates an increase from the 1989-91 period (6.5%). Thus, these data suggest, the longer a country's involvement with the EU funding, the greater their

²⁰⁶ Clearly this is inadequate for a comprehensive understanding of local participation in the design and implementation of EU policy. However, it is the only indicator available to compare across all European regions. Anything else requires in depth case study analysis.

²⁰⁷ The research on the Integrated Mediterranean Programmes conducted by the EC and the Regions Project, 1990, at the European University Institute, under the directorship of Dr. Robert Leonardi, was financed by the Commission of the European Communities, grant no.88-88001.

ability to leverage in private funds. In other words, financial europeanization is an important step toward promoting networking.

Finally, the last stage is full europeanization. Local authorities which have reached this stage actively participate in transeuropean collaborative networks, projects, and lobbying efforts, advise the EU on implementation issues, and try to make their own policies more European. This represents a movement from reactive to proactive policy in the area of Europe; a clear sign of institutional capacity building. The numbers of regions and localities falling into this category are increasing but still probably remains quite small.²⁰⁸

Europeanization helps build local development capacity both directly, by providing increased resources, and indirectly, by promoting inter, intra, and transregional networks that support development efforts. The primary instrument which has encouraged the europeanization of the local authorities has been EU regional policy. Let us examine the evolution of this policy to see how it has stimulated local governments to increasingly follow the path outlined above.

II. THE EVOLUTION OF EUROPEAN REGIONAL DEVELOPMENT POLICY

Over time the scope and objectives of European regional policy have evolved in a manner that is favourable to local and

²⁰⁸ At present, there is no way to test this proposition. It is, indeed, a fruitful direction for future research.

regional actors. This evolution can be interpreted as

attempts to improve the adaptive capacity of regional economies adversely affected by processes of economic transformation or to increase the growth potential of backward economies (Cheshire, et al., 1991, p.169).

A European regional policy can be said to have been emerging since the 1960s. Although Italy was the only country of the original European Community with serious regional problems, the Treaty of Rome did indicate a general goal to reduce regional disparities²⁰⁹ while loans from the European Investment Bank (EIB) were given to underdeveloped regions and exceptions under competition policy were allowed in pursuit of regional development objectives. Additionally, the European Social Fund (ESF) established in 1957 and the European Agricultural Guidance and Guarantee Fund established in 1964 provided development assistance to depressed regions afflicted with particular industrial or agricultural problems. In 1965, a major report on regional problems was submitted to the Council of Ministers from the European Commission which was followed by the creation of the Directorate General for Regional Policy, DG XVI, in the 1967 Merger Treaty.

With the first enlargement of the EC in 1973 (to include Britain, Ireland, and Denmark), the political balance changed to the advantage of regional policy (Cheshire, et al., 1991).

²⁰⁹ In Article 2 of the Treaty of Rome, the signatory countries agreed to "promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion." In the preamble of that treaty the commitment to regional development is much more pronounced, stressing the goal of "reducing the differences existing between the various regions and the backwardness of the less favoured regions".

The negotiation process for enlargement moved regional policy from the back burner to centre stage in terms of priorities especially as two of the new countries had strong reasons for backing such a policy. Ireland saw regional policy as a way of overcoming its poor, peripheral position. Britain, with a small highly efficient modern agrarian sector but severely hit by problems of deindustrialization and industrial decline, viewed regional policy as: 1)a way to cope with deindustrialization which had a strong spatial dimension; and 2)as way of counterbalancing the costs of the Common Agricultural policy to which Britain would be a net contributor.

The result of this new political balance was the creation of the European Regional Development Fund (ERDF)²¹⁰ in 1975 which gave the EU "a financial instrument for explicit regional intervention."(Croxford, et al...1987, p.25, emphasis added) Although the seeds for the establishment of a regional policy were planted, initially, the ERDF was predominantly concerned with just financial transfers, primarily providing grants for infrastructure investments. These funds were allocated in accordance with national quotas whereby each member state received a guaranteed level of support although more assistance was directed to member-states with GDP per capita below the Community average. This system of guaranteed quotas put complete discretion concerning regional policy in the hands of the member-states; the Community was without real

²¹⁰ The ERDF was set up by Council Regulation in 1975 but was only given a solid legal foundation in article 130C of the EEC treaty by the Single European Act (Lowe, 1988, pp.504-505).

influence.

The only clearly European element to regional policy in these first years of the ERDF was the concept of additionality which was the requirement that EU funds must be additional to already obligated national expenditures (Cheshire, et al., 1991)²¹¹. These funds were not allotted to replace national investment but to supplement it. In addition, there were no instruments to coordinate the various project expenditures which resulted in the funding of individual, unconnected projects which discouraged synergetic, integrated development strategies (Croxford, et al., 1987). However, since the power to distribute funds remained rooted in the nation-state, there was no real incentive for local authorities to interact with European institutions. In other words, europeanization is a function of the degree to which European institutions have the power to allocate European funding.

Since its inception, the ERDF has undergone a number of reforms which have moved it toward a true regional development strategy (Nanetti, 1990). These reforms have had a distinct europeanizing influence. The first reform in 1979, established a non-quota section of the Fund that the Community could use to help alleviate regional problems that emerged as a by-product of other community policies especial regarding industrial restructuring which by now had become a fundamental

²¹¹ Needless to say, the additionality clause has not always been observed.

problem within many EU economies.²¹² The non-quota section had three features which differentiated it from the quota measures (Cheshire, et al., 1991). First, these programmes were multi-annual rather than yearly. Second, financial assistance could be provided to a broader range of initiatives (such as support to SMEs) than just infrastructure projects. Finally, the money could be allotted to areas that were not designated by national governments as special assistance areas. Thus the EU now had some discretion, although still minimal, in how its funds could be spent.

In 1984 a second reform of the ERDF replaced a quota system with indicative ranges (minimum and maximum allotments) for each member-state. To receive funds over the minimal allotment, national governments had to submit sufficient applications that met both the priorities and eligibility criteria established by the Commission. The national allotments comprised 88% of the development funds leaving 12% to be distributed, at the ERDF's discretion, to the region's most in need. Furthermore, the financing of individual projects was replaced by the 'programme approach' which also provided the means for the Community to monitor more closely the use of the funds and manage the problem of additionality. This reform of the structural funds signalled new ambitions on the part of the Community; to promote internally generated development rather than simply transferring funds in an ad hoc

²¹² The non-quota section covered areas dependent on declining industries including ship-building, fishing, iron and steel, and textiles and clothing.

fashion.²¹³

The programme approach has two forms: National Programmes of Community Interest (NPCIs) and Community Interest Programmes (CIPs). NPCIs are initiated by the national authorities within the member-states themselves. CIPs, which replaced the non-quota section of the ERDF, originate in the Commission and cover parts of more than one member state. The advantage of the programme approach is that it permits a more broadly based consultation among regional, national and Community authorities on regional strategies and priorities and offers provisions for monitoring the operations (CEC, 1987a). A commitment between authorities (or partnership as it is referred to) is put on a contractual basis (the programme contract) where the obligations of each party are made explicit. The program contract, negotiated among the EC, the Member-State and the Region, is legally binding under Community Law (Nanetti, 1990). This partnership contract puts the region or relevant subnational authority on an equal contractual basis with the EU and the state in the design, financing, implementation and monitoring of EU regional policy. And it is this contract, which is one of the most important instruments of the europeanization of local government.

Between 1979 and 1987, changes within the EU framework were catalytic in terms of moving regional policy forward. The entry of Greece (1981), and Spain and Portugal (1986) had

²¹³ The promotion of endogenous development signals a change in predominant model of regional development (chapter 1).

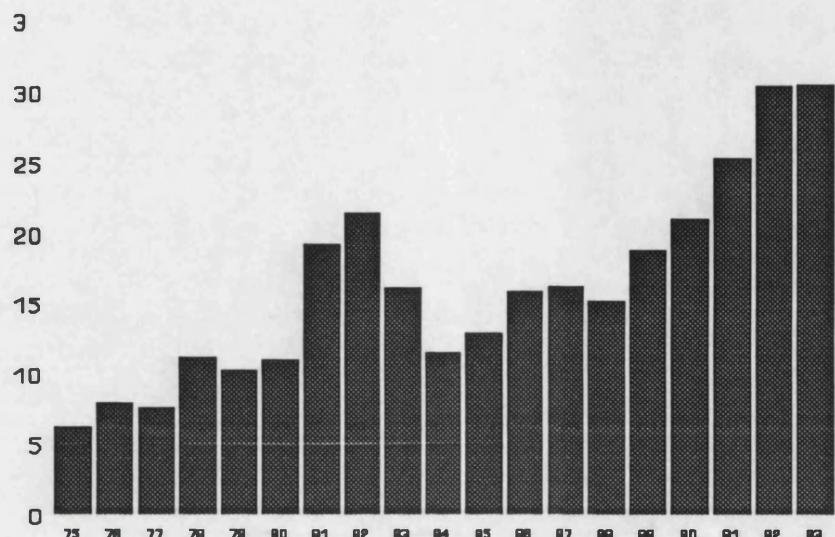
dramatically augmented the magnitude and diversity of structural problems within Europe. The 1985 white paper, and the commitment toward the 1992 programme of full market liberalization demanded greater attention to problems of social and economic cohesion, if all regions were to exploit the opportunities presented by the single market. In fact, the Single European Act placed the goal of achieving social and economic cohesion directly into the treaty.²¹⁴

Europeanization was further increased in the 1988 reforms²¹⁵ of the Structural Funds which led to a substantially increased budget (Figure 7.1) and a higher degree of co-ordination among the various policy instruments used to promote regional development (hence the new reference to the Structural Funds which indicates a mandatory coordination of the three funds). The coordination of these funds would be accomplished through the development of a single overarching development plan known as the Community

²¹⁴ Article 130C of the EEC Treaty declared that the aim of the European Union is to "redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions."

²¹⁵ While these will be the last reforms discussed since the study stops at 1992, a number of further changes have also occurred. The Maastricht Treaty has inserted several new components that reflect a growing institutionalization of these ideas including the Committee of the Regions which must be consulted before implementing decisions relating to the ERDF and a special Cohesion Fund, targeted at Greece, Portugal, Spain, and Ireland. Additionally, the Structural Funds have been reformed for the 1994-1999 period which will double available finances, add another fund (Fisheries Guidance Instrument), reinforce the partnership agreement by including a wider range of social and economic groupings, reorganize funding eligibility to cover serious problem areas, and include an environmental impact assessment from the planning stages (CEC, 1993a).

The Growth of the Structural Funds % of Total EU Expenditure, 1975-1993



Source: CEC, 1993a. 1993 figures from 1993 budget.

Figure 7.1

Support Framework (CSF). These changes demonstrate the recognition of the growing political importance of the EU's redistributive function both as a mode of political exchange and as a development agency seeking to address the gap in the economic and social well-being of the European regions. The reforms also signal a fundamental transformation in the quality and quantity of EU policy interventions aimed at deepening economic integration and redressing economic and social disparities and thus represents a necessary complement to the creation of the Single European Market (Cheshire, et al., 1991). Furthermore, the Consultative Council of Local and Regional Authorities was also established in 1988 which would

be consulted on all issues dealing with regional development²¹⁶.

Beyond just doubling and coordinating the funds available to make a genuine impact on regional economic development, the reform has given even greater discretion to the EU to identify priority regions and to concentrate on a limited number of clearly-defined goals. Five objective regions were delineated to be the recipients of the Community's policy.²¹⁷ Integrating the lessons learned from earlier reforms, the funds would be allocated on the basis of the programme approach, projects would be established on the basis partnership between various levels of government, and mechanisms for the monitoring and evaluation of programs and the dissemination of innovation and new experiences would be set into place (Lowe, 1988, Nanetti, 1990). By doubling the funds, concentrating on serious problem areas, and incorporating the local authorities into the policy process, it was believed that the EU funds could make a significant impact on the structural problems as well as build in adequate flexibility to allow policies to adapt to the specific problems faced by individual regions (Lowe, 1988).

The 1988 reforms gave the EU full discretionary powers to

²¹⁶ The Committee of Regions established by the Maastricht Treaty has taken over this function.

²¹⁷ These regions include: Objective 1 regions, defined as those regions whose regional GDP is below 75% of the Community average, are the less favoured regions requiring development assistance and structural adjustment. Objective 2 regions are those in industrial decline. Objective 3 regions are experiencing severe long-term unemployment. Objective 4 regions have problems with youth employment. Objective 5 regions are rural and agricultural areas.

select those regions which would be eligible for European regional assistance, which now represented substantial financial transfers. Therefore, the EU has become a critical actor in the development process. Local authority European activity has been in response to these reforms.

Concurrently, the regional and local authorities have been given a greater say in development policy and direct links into the Brussels bureaucracy. This has occurred through the programme contract which provides subnational authorities with some direct contact with Brussels and by a second, less obvious way, the politics of designating regions as eligible for EU funds. Cheshire, et al. (1991) note that all aspects of this process, including the technical criteria used for designating objective regions, is the product of political horsetrading. The presence of statistical criteria plus optional criteria makes the decision process both highly political and highly complex. For example, Northern Ireland was designated as objective one although its GDP was 85% of the EU average in 1985, well above the 75% ceiling established by the EU (*ibid.*). In these cases, the local authorities often play an important role in this political process²¹⁸.

Additionally, the CIPs, which have been growing in scope and number, allow these authorities to apply directly to Brussels for financial assistance. Since most of these programmes require either European partners and/or local

²¹⁸ For a discussion of how problems with defining and measuring GDP, the chief technical criteria for designating objective 1 regions, resulted in the misrepresentation of the economic position of certain poor peripheral areas in Scotland, see Gaskell (1993).

partners to make an application, the deepening of europeanization takes on two new features: increased ability to network on a transeuropean level and the need to bring more local private sector actors into the european regional development process. These efforts are not solely focused on gaining access to established policies and financial assistance but in actually creating new opportunities. For example, the UK based Coalfields Community Campaign was actively involved in a European lobbying campaign which resulted in RECHAR, a European programme to help mining areas in decline. These types of lobbying efforts help to by-pass blockages created by national governments and/or put additional pressures on the national government in important policy areas (Benington and Harvey, 1994).

In 1991, there were 12 CIPs that came under the discretion of the ERDF (CEC, 1991c). These include INTERREG which assists border regions and STRIDE which supports research, development and innovation. There are a large number of other Commission initiatives which are also available to subnational governments. Leonardi (1995) identified 50 community initiatives aimed at stimulating development through network creation; most of which require european partners. These initiatives cover many specific areas of activity including assistance to small firms (BC-net which acts as a marriage bureau among firms to enhance collaboration), vocational training (NOW which focuses on training for women), research and development (ESPRIT for telecommunications), among many others. These programmes are available to a range

of local actors; not solely local authorities. Hence these programmes often help europeanize local actors (universities, Chambers, etc.) and thus increases the potential for local institutional capacity building.

An additional incentive to interregional and transregional networks, according to Goldsmith (1993) may be the lack of congruence between the territorial units used by the EU known as NUTS (Nomenclature of Statistical Territorial Units) which would be those eligible for funding, and the actual designations within each member state. This situation has encouraged local authorities to work together if they are to be eligible for EU funding opportunities. For example, three counties in the Southwest region of England (Avon, Gloucestershire, and Wiltshire) made a successful joint bids for the new KONVER programme, which helps regions that are overly dependent on the defense industry.

Subnational governments' role has been increasingly institutionalized within the European Regional Policy framework. The local and regional level are stressed in both the Community Support Frameworks as well as in the myriad of Community programmes which specifically attempt to stimulate development through local and european networking activities.

Summing up thus far, we have defined europeanization and shown how the development of regional policy has been a key instrument encouraging europeanization. The next task is to examine our two cases to gauge the degree of europeanization and what influence europeanization has had on the functioning of institutional networks and the building or strengthening of

their economic development capacity.

III. EUROPEAN REGIONAL POLICY AND EUROPEANIZATION IN NOTTINGHAM AND PRATO

This section will examine both cases in relation to the four stages of europeanization. To begin, both cases easily fall into the category of minimal europeanization. Several years ago, Nottingham City Council set-up a European office with a staff of three to manage european issues. Although Nottingham can use the County as its interface and has done so, it often prefers to go it alone; setting up a separate Brussels office for example when the county had already established one as part of an East Midlands office.

In Prato, the structure is a bit different. Since Tuscany is a region with distinct political powers, it represents the main interface with the Community. The region of Tuscany is very European oriented (Leonardi and Nanetti, 1994). In 1983, a bureau of Community Policies was established within the regional president's office. Nanetti (1994) noted that the single office proved difficult to manage politically so it was transformed into an office whose main purpose was to coordinate large, multi-dimensional projects. For more specific areas, the corresponding department of the regional administration became the main instrument for managing EC policies. Indeed, Tuscany generally, and the Prato textile industry, specifically, have a long history of involvement in European programmes; receiving support from the non-quota section for textiles and the Integrated Mediterranean

Programmes in the 1970s and 80s.

Having established that both meet the minimal europeanization criteria, the next step is to assess the degree to which the cases meet the criteria for stage two (financial europeanization) and stage three (networking). The inquiry will be carried out in two steps. First, an analysis will be conducted of CSF funding within the two greater regions--East Midlands (or Eastern England depending on the data) and Tuscany to measure each area's ability to maximize EU funding and empower private sector participation. The NUTS 2 or regional level data is used because comparative data is unavailable at lower units of analysis. Step two is an in depth examination of how the funding was used and what the priorities were regarding distribution and compare this to what we have learned in earlier chapters about the strength of local networks. This analysis can suggest the degree of integration of European policy and programmes with more general policy initiatives. The more overlap, the greater the degree of Europeanization at the networking stage.

Both cases also seem to fall easily into the category of financial europeanization. Both are objective 2 areas and thus are in a position, at least in theory, to tap into a wide range of European funding. Table 7.2 shows the funding patterns of the CSFs within the regions with Objective 2 areas

Funding of UK and Italian CSFs (1989-91)
In Regions with Objective 2 areas (in percent)

	Private Sector % Contribution	National/Public % Contribution	Total EU % Contribution	ERDF % Contribution	ESF % Contribution	EAGGF % Contribution
Piedmont	35.6	35.5	27.8	12.8	15.7	0.8
Valle D'Aosta	0.0	84.1	35.9	8.5	25.5	0.0
Liguria	35.8	30.5	31.1	12.8	18.1	0.0
Lombardy	7.1	51.6	41.3	2.1	39.2	0.0
Veneto	35.0	35.5	27.4	6.8	13.8	6.8
Tuscany	53.6	35.8	19.8	8.7	7.0	4.1
Umbria	13.6	46.1	40.3	16.8	13.8	8.5
Marches	37.6	35.4	26.0	8.3	18.7	0.0
Lazio	23.1	41.2	32.7	6.0	19.8	7.5
ITALY (OBJ. 2)	27.3	41.3	31.4	8.1	18.3	3.1
ITALY (TOTAL)	25.2	43.8	26.8	15.7	20.1	3.1
North	9.0	34.7	35.2	25.1	10.1	0.8
York. and Humb.	22.9	39.4	37.8	32.7	4.9	8.8
East Midlands	11.7	31.4	37.2	28.2	8.9	0.0
West Midlands	4.5	23.5	24.3	20.6	3.7	0.0
Northwest	19.4	47.4	33.2	22.3	11.1	0.8
Wales	7.4	48.8	40.3	32.0	8.3	8.8
Scotland	20.2	47.8	33.8	27.3	4.3	2.1
UK (OBJ. 2)	14.7	46.2	34.8	27.0	7.3	0.3
UK (TOTAL)	15.2	43.8	37.2	27.2	8.8	0.7

Source: CEC (1992a), elaborated by the author.

Table 7.2

in Britain and Italy after the 1988 reform²¹⁹. The table

²¹⁹ Some statistics do not correspond to those found in Table 7.1 because these figures were calculated differently. Table 7.1 uses national data. Table 7.2 uses regional data. For instance, the figures for objectives 3/4 for the UK were only provided on a national basis and thus were not included in the total country figures. For Italy, some of the data was partially national, and partly regional and thus only the regional data was included in these figures. Second, a few of the programs covered two regions.

demonstrates some interesting differences between countries and regions. Italian Objective 2 areas have a higher dependence on the private sector (27%) than the British (15%). As a result, British projects depends more on public and EU financial assistance than do their Italian counterparts. Tuscany and the East Midlands mirror their respective country profiles: in fact they represent extreme cases.²²⁰ Tuscany has an overwhelming reliance on the private sector (54%) and receives quite a small amount of total project costs from the EU (20%). The East Midlands, alternatively, has a low degree of private participation (12%) and a particularly high dependence on the central government (51%) and the EU (37%).²²¹ This figures reflect what we know about these two regions; Tuscany has a highly developed, institutionally strong private sector well integrated into the development support environment while the East Midlands is dominated by public institutions.

Although it might be initially concluded that the East Midlands has been better at exploiting EU funding opportunities, suggesting that the initial hypothesis which

When this occurred, the finances was evenly divided between them. Finally, some of these regions also include objective 3/4 and 5b areas and these finances are included in the regional figures.

²²⁰ Actually, since objective 3/4 monies in Britain were not broken down by region, these funds were not included. However, since there are no cases in which private sector funds were used to fund training policies, the importance of the private sector in Britain is somewhat exaggerated.

²²¹ These figures do not include all transfers from the EU to these regions. Tuscany still received IMP transfers as well as funding from the EU textile policy during these years. The East Midlands receives additional support from RECHAR, the EU programme aimed at declining coal mining communities.

stated that the networked region would be more capable in this regard, looking deeper into the specific dynamics of EU funding organization in Britain, the picture changes somewhat. Specifically, British local authorities, unlike their Italian counterpart, have faced important restraints in their bids for ERDF funding. There has been a long running problem between local authorities, the Commission, and the Centre regarding additionality. According to the EU, any funds provided through the Structural Funds should be additional to central government funding. Theoretically, local governments should be able to obtain and spend money from both sources. In practice, the expenditure levels that the central government sets on local governments puts restrictions on EU spending as well, forcing local governments to choose between funding sources which are more advantageous rather than combining them for more ambitious projects.

As a result of this situation, the government programmes have been more attractive than many of the Community programmes since they pay a higher percentage of the overall project costs (75% compared to 50% offered by the EU for objective 2 regions). It is no surprise that ERDF monies in the UK are traditionally underspent. The departments have to actively go out and promote EU funds and persuade local authorities to put in bids to maximize grants.

It is in the interest of ... the partnership that the money is spent, that we are all working together. In other grant regimes, you apply for it and nobody will chase you. We have to promote. We are actively persuading them to put in bids to maximize the grant. We are proactive in this area. Its central government

policy to take up or maximize the ERDF grant effectively.²²²

Only very recently, has the government removed the across the board expenditure levels so benefits can now be felt in relation to the grant.

Additionally, looking at how funding was allocated within the specific CSFs in Tuscany and Eastern England. Table 7.3 (Tuscany) and Table 7.4 (Eastern England) show some interesting differences which shed crucial insights for assessing the hypothesis. Again the greater importance of private sector participation is underscored in Tuscany. They play a substantial role in the provision of business support, tourism, and general support to the industry. Of great interest is the almost complete absence of government financial support in the area of business development in Tuscany (83% is funded from the private sector) while in Eastern England the public sector provides the greatest amount(75%).

²²² Interview 40.

Table 7.3
Distribution of Financial Responsibility by Type of Measure
in the CSFs for Tuscany(1989-93)

Funding Source	% EU		% Public		% Private		
Measure	Years	1989-1991	1992-1993	1989-1991	1992-1993	1989-1991	1992-1993
Business Support ²²³	5	9	7	12	88	78	
Infrastruc. ²²⁴	12	32	42	40	46	27	
Tourism	13	10	10	18	77	72	
Environment	15	31	58	25	27	44	
R&D, Voc. Tr.	45	45	55	55	0	0	
Technical Assist.	45	45	55	55	0	0	
Total ²²⁵	9	14	24	18	67	68	

Source: 1989-91: CEC (1990), elaborated by author
1992-93: Regione Toscana (1993a).

The information furnished by the Tuscany CSF (CEC, 1990) indicates that other public bodies (including the subnational authorities) provided 53.4% or the majority of the public funding tranche, thus indicating the important financial responsibility of the subnational government. In the UK, such

²²³ For Tuscany, this category was entitled development and strengthening of SMEs. For Eastern England, it is labelled business development.

²²⁴ For Tuscany, this category was identified as support structures for economic activity. For Eastern England, it represents the merging of two categories--facilities for the development of productive activities and transport facilities.

²²⁵ Discrepancies between this table and table 7.2 are attributable to the problems in the earlier data sets used. The figures in tables 7.3 and 7.4 are more reliable. The trends in each in terms of the general participation levels is similar in each table. So although table 7.2 uses an imperfect data set, the information concerning general trends is still useful.

information was not available. Clearly, in Tuscany, development planning is truly a locally-driven endeavour. Looking at England, we shall see that it clearly is not.

Table 7.4

Distribution of Financial Responsibility by Type of Measure in the CSFs Eastern England (1989-93)

Funding Source	% EU		% Public		% Private	
Years	1989-1991	1992-1993	1989-1991	1992-1993	1989-1991	1992-1993
Measure						
Business Support	35	35	40	40	25	25
Infrastruc.	33	33	68	68	0	0
Tourism	33	36	41	44	26	20
Environment	50	50	50	50	0	0
R&D, Voc. Tr.	22	26	27	32	50	42
Technical Assist. ²²⁶	0	0	0	0	0	0
Total	34	35	52	52	14	13

Source: 1989-91: CEC (1991a), elaborated by author.
 1992-93: DOE (1991), elaborated by author.

Again, Eastern England appears stronger in terms of its ability to maximize EU funds (34% of total costs as compared to 9% in Tuscany). Looking at the actual amount of money spent by the EU for these initiatives, in Tuscany, the EU provided 41.78 MECU to the new initiatives from 1989-91 while in Eastern England, they provided 57 MECU in the same years (CEC, 1992a). The total costs of these projects, however, were, in Eastern England, 168.3 MECU while Tuscany spent 436.71 MECU (CEC, 1992a). Although the EU provided both a higher sum of

²²⁶ Money will be allocated if it is later required but none was put down initially.

money as well as a higher percentage of the total costs in Eastern England, Tuscany was the real winner in its ability to use EU funds to successfully leverage in private funds for larger development policies. This difference is potentially explained through the higher dependence of British local authorities on central funding for development projects (chapter 3). In Tuscany, alternatively, comparatively little central funding is diverted to the region specifically for development purposes (chapter 4). In sum, strong institutional networks in Tuscany were able to bring EU funding into an already developed funding regime and policy process, allowing for greater expenditure and a greater integration of resources than that found in the East Midlands. In the East Midlands, public funding sources compensate for the inadequate development of the private sector forcing localities to adapt their policies to meet the requirements of centrally-determined funding criteria.

Between 89-91/92-93, there is minimal change in the division of labour between the three funding providers in Eastern England in these policy areas. In Tuscany, however, there is a small change. The EU increased its share from 9% to 14% while the Italian public sector decreased its contribution to the programmes from 24% to 18%, dramatically increasing the weight of European funding for development projects. The decreasing role of the central state reflects its small role in Tuscan development as compared to the dominant role of the central government in the East Midlands situation.

Looking at the different priorities given by each region

to these various programs we can again see distinct divergences. Table 7.5 holds the relevant information. Tuscany has concentrated primarily on business support which may be explained by the sheer amount of private funds that were contributed and the strength of public/private collaborative networks. It grows in priority between 89/91 and 92/93 from 47% of total funding to 59%. Infrastructure, which received substantial support (34%) drops drastically to only 9% of funding in 92-93. Clearly, the strong public/private institutional networks have influenced Tuscany's funding priorities; allotting most of the funds to vital business services. As discussed in chapter 1, internetworked business support services are one of the most important tools to assist industrial adjustment.

Table 7.5
Percent of Total CSF Funding by Type of Measure
in Tuscany and Eastern England

Region		Tuscany		Eastern England	
Measure	Year	1989-1991	1992-1993	1989-1991	1992-1993
Business Support	47	59	19	26	
Infrastructure	34	9	45	42	
Tourism	18	23	19	14	
Environment	6	6	9	9	
R&D, Training	2	2	17	9	
Technical Assist.	.3	.8	0	0	

Source: 1989-91: CEC (1990 and 1991a).
1992-93: DOE (1991) and Regione Toscana (1993a)
elaborated by the author.

In Eastern England, we do see a greater expenditure on

business support moving from 19% to 26% of total funding, reflecting the central government's emphasis on creating a climate for business but it is still way behind Tuscany. Infrastructure funding remains the major recipient of EU funds, clearly highlighting the dominance of central agencies, which work under a government-issued free market ideology which stresses the traditional state role in economic development (minimal intervention with a focus on infrastructure provision). Support for vocational training drops from 17% to 9% which may be explained by the development of TECs, which have been key players in training provision since 1989 but their status regarding access to EU funding was initially unclear.²²⁷

Tuscany's ability to leverage in private funds is a function of the strong local networks that provide the foundation for policy design and implementation. When working out the CSF design, the Region acted in regular consultation with the Consulta Economica.²²⁸ Planning for the application, design and implementation of EU funding is indeed a community event in Tuscany; the networks which coalesce around general development policies are the same networks which are involved in EU policy.

In Eastern England, the situation is very diverse. The central government departments run the show. The CSF for Eastern England partnership includes all local authorities,

²²⁷ The TECs are now eligible for EU funding. In fact, a TEC sits on the partnership community in the Eastern England partnership.

²²⁸ Interview 1.

TABLE 7.6
EAST MIDLANDS REGIONAL PARTNERSHIP FOR
THE STRUCTURAL FUNDS

DOE:	East Midlands Regional Officer Programme Secretariat
County councils:	Nottinghamshire, Derbyshire, Lincolnshire
City councils:	Nottingham
District councils:	North East Derbyshire, Bolsover, West Lindsey, Mansfield, Newark and Sherwood, Bassetlaw, East Lindsey, Ashfield
Borough councils:	Chesterfield
DOE: HQ, Policy Division	
DTI	
Department of Employment Training Agency	
Employment Service---East Midlands	
DTP	
DPS 3(C)	
European Commission (DG XVI)	
British Waterways	
British Rail	
Yorkshire Water	
Anglian Water	
Severn Trent Water	
British Coal Nottinghamshire Group	
British Coal Enterprise	
East Midlands Chamber of Commerce	
National Trust	
East Midlands Tourist Board	
North Nottinghamshire TEC	
Rural Development Commission	

Source: DTI, 1992.

the regional Government departments, and a range of other actors including British Gas and British Coal enterprise (See Table 7.6). All the partners are eligible for funding. Whereas in Tuscany, the region meets with local actors to design policies to meet the needs of subregional economic units, in Eastern England, the centre meets with mostly

regional actors which have no real mandate to design policy for objective 2 areas which are subregional. Besides the local authorities, the main partners represent utilities, quangos, and central government agencies. With the exception of the local authorities, there is no direct involvement of local social and economic actors in the policy partnership. The East Midlands Regional Partnership for the Structural Funds looks nothing like the local networks which are involved in local development policy. Is it any wonder that UK policy reflects central government criteria and has difficulty leveraging in private financial support? Given this type of partnership structure, British authorities face serious impediments to networking among local actors in the elaboration of EU development plans.

Being seriously hampered in their ability to build european-oriented local networks, Nottingham has tried to overcome this limitation by networking with other local authorities both across Britain and Europe as a whole. In John's (1994a) stages (section I), Nottingham could be considered quite Europeanized while Prato much less so. This suggests that John has not offered distinct stages of europeanization which follow a specific order but alternative strategies for tapping into European resources and managing local economic problems.

To begin, Nottingham was instrumental in the creation of LATC (Local Action for Textile and Clothing), a British network of local authorities heavily dependent on the textile and clothing industry. LATC fulfils three crucial functions:

1) it provides an important forum for the exchange of dialogue and information on common problems and solutions; 2) it lobbies both the UK and Brussels in areas of mutual concern; and 3) it acts as a common clearinghouse for data collection and dissemination. In fact, LATC prepared the argument for including Britain in RETEX, the Community's new Textile CIP. (See section IV)

Nottingham City Council has also been quite active on the European front. Several years ago the NCC established a European team, consisting of three people, within the Development Department. At that time, European linkages were minimal; just a few twinnings with Karlsruhe, Ghent and Minsk, which had primarily a civic rather than economic remit. The European team aimed to turn those relationships into working practical arrangements that could assist area businesses and institutions. Working with Karlsruhe, a four cities partnership was established with Nancy in France and Halle in former East Germany to establish common economic development initiatives. This has been a key lever to try and encourage inward investment and trade links. Nottingham has also joined the Eurocities network set up in 1986 by Birmingham and Barcelona to share experiences and develop common approaches to shared problems. At present, the city is considering joining ACTE which is a European network of textile and clothing regions. The county is a member and so the city is presently represented through them.

However, building networks is a difficult task. One Nottingham experience can prove quite instructive in the

practical problems of building and maintaining european networks. In the early years of the Fashion Centre, relations were established with a successful textile centre in Emilia-Romagna known as CITER. These linkages have been severed. While none of the respondents could explain exactly why, the answer seems to lie in the fact that almost all of the people on the existing team were no longer working for the city council, thus personal linkages, which are key elements at the start of any networking endeavour, were broken without having first established the institutional links that cement the network through the mutual benefits the network brings. Presently, the County is now trying to resurrect this lost opportunity.

Another 'lost opportunity' on the European front requires our attention; the creation of two competing offices in Brussels. The county, as part of the Federation of East Midlands Authority, was an active participant in the establishment of an East Midlands office in Brussels. The city, alternatively, spearheaded the creation of a Nottinghamshire office which comprises a partnership of the eight local districts, the Greater Nottingham TEC, Nottingham Trent University, the Chamber of Commerce, and Clarendon College. This is the most pronounced division of interest within the entire UK (John, 1994b). Although the threat of unitary status may have been an impetus for the city to create its own office, recent information from the Local Government Commission suggests that the two-tier authorities will remain in Nottinghamshire. Ironically, the creation of a

Nottinghamshire office represents the successful consolidation of local economic development networks; those actors involved were identified earlier as being the central economic development players. Hence, the evidence provides support for the hypothesis that the EU would stimulate increased networking efforts.

Prato, alternatively, has yet to develop significant European linkages. There are some twinning arrangements with French, German and Austrian counterparts but these still remain cultural rather than economic in orientation. They participate in ACTE and, through the REMTEX initiative (section IV), have visited other textile regions in France and Spain. As one participant noted: "Prato does not have a permanent relationship with the EC beyond Objective 2 money. We have not really created anything permanent."²²⁹ Recognizing the need to create European links, a creative way of building European networks is currently being explored; exploiting the European elections. The mayor of Prato, Claudio Martini, was put on the PDS list for the 1994 European elections. As mayor Martini commented:

It is an extra opportunity that the PDS offers the city....We will use the eventual electoral campaign ...for knowing better the EC and for it [EC] to know us better. In the end, we will bring home at least contacts and useful relations (cited in Toccafondi, 1994).

How can we explain this discrepancy; on one hand Nottingham has created more extensive transeuropean networks while, on the other hand, Prato seems better able to tap into a wider range of European funding. The explanation comes

²²⁹ Interview 2.

partially from the presence of elected regional government. Entrepreneurial regions are better able to tap into Europe through direct institutional channels (i.e. Council of Regions, Committee of Regions, partnership contracts, MEPs) Although some of these channels are available to localities, the localities do not hold the same weight within these institutions. The Structural Funds, in particular, are explicitly targeted towards NUTS 2 regions. Thus, elected regions can speak authoritatively for a substantial population of Europe, and the EU listens. Localities lack this presence and, perhaps, this legitimacy.

In fact, local actors in Nottingham are aware of the debilitating absence of regional structures. Given the strong regional presence of the industry, there may have been strong pressures toward regionally-based networks and activities. However, the lack of politically independent and capable regions successfully precludes the development of that option. One respondent, discussing applications to RETEX, a European Union initiative supporting the textile and clothing industry, noted:

In my opinion, if we had gotten our act together and put in a global application on behalf of the whole of the East Midlands, sorted out various shares between the various local authorities in terms of their contributions, we would have gotten a lot of money, but we failed.²³⁰

Difficulty co-ordinating region-wide activities is a problem that besets all English regions. The priority given to

²³⁰ Interview 29.

urban rather than regional development since the Conservative's return to power in 1979 has encouraged competition among localities, thus effectively undermining attempts at regional collective action (Anderson, 1990, p.254). The two Brussels offices, one for the region the other for local Nottinghamshire authorities, is yet another distorted outcome of the Centre's constraining hand. An elected region may have been able to manage the competition between authorities and foster the integration of their resources to deal with common problems.

To make-up for their weak public-private networks and the absence of effective regional representation, Nottingham has attempted to build broader transnational and transeuropean networks to fill in the blanks. However, these should not be seen as substitutes for an effective local/regional networking system but as additional to them. The region presents an important focal point for this type of activity and its absence is felt in the English institutional structure. It is no wonder then that Nottinghamshire has started to act in concert with other East Midland counties in promoting regional activities such as a common Brussels office and the establishment of a regional venture capital agency. However, the city-county animosity still wastes resources and hinders Nottingham's ability to fully take advantage of those opportunities which would be better developed on a regional scale.

Although these cases have proven to be quite different in their relationship to Europe, europeanization and the EU

funding programmes have stimulated convergence in certain areas. In both cases, relations with the EU have fostered increased partnership activity, an increased understanding of the local economy and the European environment in which they function²³¹, and the strengthening of the role of the local authorities within the development process because it is a vital transmission point for EU resources to local actors.

Both localities face similar restraints to networking. In particular, networking in Europe can be quite costly especially when most public authorities are trying to make cutbacks.

The problem is getting money to go to Europe to establish links. European trips are seen as jaunts and it can be difficult to justify the expense to other departments. I go to create and pursue European contacts but they are also potential customers and suppliers.²³²

The European Union does provide funds to support these networking endeavours but it only covers part, rarely all, of the costs. For example, the EU provided 50% of the funding for a European Conference on Textiles and Clothing held by the Nottinghamshire County Council²³³ (Nottinghamshire County Council Economic Development Committee Minutes, 22 June 1992).

²³¹ Applications for CIPs, and bids for recognition of being an objective region, require that localities can present an accurate economic picture of themselves, their economic difficulties and the potential solutions for these problems within a European context. Additionally, CIPs usually require partners in analogous regions. Thus, local authorities must develop a fairly detailed understanding of their economy, and its insertion into both wider markets and its relationship with social processes; which--even if the bid fails--remains a positive contribution for overall development purposes.

²³² Interview 24.

²³³ Nottingham, Nottinghamshire and Prato were participants.

While networking does have many benefits, such as information sharing and learning from each other's problems and solutions, and awareness of other markets, for local authority budgets, it can be a difficult decision, especially when the returns are rarely measurable in any real, quantitative way.

Despite this relative dearth of European links, especially when compared to Nottingham's activities, it is Prato, with strong collaborative networks, which has probably benefitted more from the EU. Besides the CSFs, Prato has substantial support from older EU textile support initiatives, the Integrated Mediterranean Programmes, Perifera, and will benefit from the new RETEX project for the textile industry (Regione Toscana, 1993). Nottingham receives money from RECHAR (for the coal industry) but failed in its attempts to win Perifera funds. The story regarding RETEX and REMTEX, the two recent EU programmes established for the textile and clothing industry, in Nottingham and Prato provides further insight into the effects of different institutional structures on the ability to maximize European resources.

IV. RETEX AND REMTEX: EU SUPPORT FOR THE TEXTILE INDUSTRY

RETEX was approved on 13 May 1992 under Article 11 of Council Regulation (EEC) 4253/88 "to help prevent the economic and social disintegration of entire regions," (CEC, 1992B, p.2) and is administered by DG XVI, the Directorate General for Regional Policies. Its main objective is to encourage the diversification of regions which are highly dependent on the

textile and clothing industry. It differs from other similar community initiatives because it provides aid to all sectors as well as viable textile companies. Thus, it is actually a regional rather than sectoral programme. The initiative was designed as a complement to the CSF's, not as an independent programme. Eligible regions include those which are overly dependent on the textile and clothing sector, are designated as Objective 1 (backlagging) Objective 2 (in industrial decline), or Objective 5b (rural areas requiring diversification) regions and those where textile and clothing firms provide a large percentage of jobs to the regional labour market(at least 2,000 jobs and a level of employment in textiles and clothing that is greater than 10% of total manufacturing employment). Eighty percent of RETEX funds are earmarked for Objective 1 regions; the remaining 20% will go to Objective 2 and 5b. The available budget was 100 MECU through the end of 1993. It is expected to continue from 1994-1997 with a budget of 400 MECU drawn from the Structural Funds allocations. Of particular importance, the EU does not decide the regions eligible for RETEX funds; that responsibility falls to the Member-States.

Despite the fanfare and high hopes at the beginning given both Nottingham and Nottinghamshire's clear eligibility and their active involvement in lobbying the EU for a textile programme through ACTE and LATC, RETEX did not prove to be a lucrative pot of gold at the end of the rainbow. The British Central government decided that RETEX should be administered nationally rather than regionally. Local authorities supported

regional distribution because that would guarantee them access to some of the pot; this way they all compete nationally for minimal funding. The UK has four million pounds available in the first period. This, according to one official, was inadequate to distribute regionally.²³⁴ As for the UK, it is politically against Commission initiatives in general because it does not like the Commission being in charge. The entire programme was politically sensitive in the East Midlands region because a number of areas in Leicestershire and Derbyshire that are highly dependent upon textile and clothing production are not objective 2 areas. The British Government lobbied to expand the eligibility criteria but was unsuccessful for the first instalment. RETEX was also not enthusiastically received by the Knitting Industries Federation (which also happens to be located in Leicestershire) on the grounds that it was too disruptive of market forces (KIF Bulletin, 1992).

Despite the lack of substantial funding, the RETEX initiative did have two positive effects in Nottingham: it stimulated networking on a local and European scale in the search for potential programme partners and it has stimulated a more concentrated approach to an industrial strategy.

The impetus behind the development of such a strategy has very much been the fact that we know that if we do that strategy now we can actually implement it with the help of our local partners through funding from the Commission.²³⁵

²³⁴ Interview 35.

²³⁵ Interview 20.

Given the lack of resources at the local level, projects were generated and then funding was sought. Thus, funding was the critical criteria determining which policies were implemented and which were not. This has pushed the NCC toward the UP in early years and European funds presently.

In Prato, however, there was no question that they would be RETEX recipients which, again, highlights the importance of both strong collaborative networks and an independently elected regional body. In Tuscany, only two regions were eligible for the 1993 RETEX bids, Prato and the mountain community of Garfagnano.²³⁶ The Consulta Economica drew up the proposals for projects, which were presented by the Region to the Ministry of Industry, Commerce and Crafts and accepted into the overall operative programme established by the Community Support Framework. Thus, the programme was easily integrated into both the established local decision-making structures and the overall funding regimes. Unlike Nottingham, complete support for the programme emerged from all involved parties. The money is to be used to provide technical support to SMEs, encourage SME collaboration in the areas of research and development, buyer-supplier relations, and commercialization and product diversification, and the reclamation of abandoned industrial sites (Regione Toscana, 1993). Compare these to the projects submitted by Nottingham city council which cover the conversion of workshops into a day nursery and the provision of space for designers to

²³⁶ When the criteria was extended in the 1994-97 funding period to include non-objective areas dependent on the industry, the list was expanded.

display their wares; useful but not the stimulant to industrial adjustment that Prato's policies can be.

Having more developed institutional infrastructure, Prato was better able to take advantage of the EU news funding opportunities. The same pattern is reflected in the REMTEX project. Recognizing that local networks are vital infrastructure in regions facing industrial adjustment but they are difficult to build, the EU, through DG V (Social policy), launched the REMTEX initiative (Consortium for Research on Employment Prospects in the EC Textile and Clothing Sector). The REMTEX objectives were:

to inform policy-makers; to enhance communication between local groups and the EC; to generate a collaborative approach to the formulation of local level strategies; to encourage the take-up of existing programmes within a local strategic framework supported by partnership; to stimulate discussion about the effects of restructuring and possibilities for reconversion; to act as a catalyst for local economic diversification initiatives and local employment action (DG V, 1993, p.1).

REMTEX stresses the local approach which is primarily concerned with capacity building and stimulating a joint approach to local problems. Clearly aimed at promoting local networks, nineteen zones were selected for two round table discussions among public authorities, training agencies, business and trade association leaders, and all other relevant actors within the textile and clothing industries to evaluate their area's industry, especially its employment potential, and develop a common vision and coordinated development plan. A minimum of two regions were chosen in 9 countries and

represent the range of regional categories.²³⁷ Prato and the East Midlands were both selected. Different geographical areas were chosen as a result of the differing structure of interest representation. The Commission required representatives that could speak for a given area; in Italy, the associations were organized provincially, in the UK a general regional level was the lowest that could be identified.²³⁸ Two round tables were to be organized; the first would focus on restructuring of the industry and the second concerned reconversion and thus would include participants from other industries. REMTEX, was an unusual European project in that it offered no funding resources to the participants.

In the East Midlands at the time the research was conducted, REMTEX I was organized but REMTEX II had not occurred and there were doubts among the respondents that it would. The participants included KIF, DG V, three business executives, the Nottingham Fashion Centre, three consultants, North Nottinghamshire TEC, CAPITB, KLITRA, KFAT, TUC, GMB, Leicester Polytechnic, Nottingham City Council, and Nottinghamshire County Council. Brussels felt that, overall, REMTEX I was successful because it increased overall awareness of the industry and introduced them to what could be done at the local level.

In the East Midlands, however, doubts were expressed by the participants. Many had already been involved in local

²³⁷ The exception is Ireland where no subregions could be identified.

²³⁸ Interview 42.

initiatives so the idea was nothing new. Aside from diverse opinions as to where the industry²³⁹ should be going that would not be resolved at a single roundtable discussion, the difficulty with this group is that each has a different geographical and functional remit. Although they are all interested in the textile and clothing industry generally, political turf battles and genuinely divergent views regarding how best to restructure the industry prevented the emergence of a common industrial purpose or a shared identity. In fact, a number of participants were also involved in different projects for different fashion resource centres; all competing for dwindling funding. The lack of a regional body undermines an exercise of this sort because there is no institutional capacity nor political leadership to turn dialogue into political activity at the regional level. All these groups had some prior linkages, and this did not seem to strengthen them in any concrete way.

Conversely, Prato's REMTEX experience was more fruitful. On some level, it could be considered another meeting of the Consulta Económica, given both represent political roundtables to bring local social and economic actors together and the same actors were involved in both (subnational authorities, business and trade associations). Ergo, many of the issues addressed were part of a long-running dialogue within the textile area as to how they could best manage the crisis. In

²³⁹ The public authorities focus on the industrial structure. The LMMA want national tariffs as they view the main threat as lower-priced foreign imports. The KIF opposes initiatives which run contrary to free market forces and supports technology and automation as the way forward for the sector.

Nottingham, an ongoing discursive process surrounding the future of the industry had yet to be established. A study undertaken by CERRM (Centre Europeen de Ressource sur les Reconversions et les Mutations) for DG V on five of the REMTEX roundtables, assessed the Prato experience:

The work reflects an agreement within the region on the broad outline of an appropriate response to the development issues that face both the textile industry and the region. The local partners have agreed on a common program of activity, given priorities to a number of interventions, and committed themselves to provide financial support (1993, p.7).

In fact, the final Commission report on the REMTEX project noted that Prato was the only one of the nineteen zones in which a strategic vision for the industry was emerging. They note:

Only in Prato had the beginnings of a strategy emerged. This covered a vision for development in areas associated with the strengths of the local textile and clothing producers which would be suitable to the needs and skills of existing labour in addition to being sensitive to the needs of the textile and clothing employers. It is significant that progress had been made in this area precisely through the perception of restructuring and reconversion as parallel and interrelated processes. Interest was generated from all actors by making explicit the links between current restructuring experience and possibilities for future diversification. In other areas, strategy formulation was seen not as a legitimate local process but as prescriptive guidance determined elsewhere and at a macroeconomic level (DG V, 1993, p.66).

The culmination of this strategy would be to create a new development agency for economic development in Prato to help the industry successfully answer current and future challenges while simultaneously promoting the expansion of the non-textile economy.

Despite the overall success of REMTEX, we must question

the degree to which the expressed commitment to reconversion will be honoured. Although the representatives of the non-textile economy (i.e. Confesercenti) are included in the dialogue, chapter 5 demonstrated that they tend to be marginalized when it came to actual involvement in policy. The same EU study noted that, although they did achieve a well-rounded strategic vision for the region, the roundtables were dominated by textile and clothing interests; which resisted the diversion of too many resources away from the industry toward diversification (DG V, 1993, p.65).

All in all, the REMTEX project highlighted the different institutional matrices found in each case. By building on already well-developed institutional networks and a growing cross-community dialogue, Prato was able to exploit, albeit with some political difficulty, the REMTEX opportunity and move the dialogue forward in a positive, strategic way. In the East Midlands, the absence of any prior or subsequent institutional context for industrial dialogue, hindered the possibilities of the REMTEX experience. Although many of the those interviewed indicated the growing need for some regional body to better manage the problems of the industry and the economy generally, each returned to their separate turfs and continued on with what they were doing within their own narrower borders.

In sum, Prato has a much more developed networking capacity which has been deepened as the result of interaction with Europe. They were shown to have better exploited their European opportunities thus supporting the hypothesis that

strongly networked localities would find it easier to maximize on Europe. Tuscan authorities, with strong local networking structures, was able to leverage in private funds which surpassed the public contribution. The presence of the region and active local authorities had encouraged the build-up of important interest groups which provide the foundation for private institutional capacity. Networks in Nottingham are much weaker and do not seem to be able to exploit the resources provided by Europe to build these stronger. Although the local authorities had been proactive in the area of development policy, the lack of a regional representation inhibits Nottingham and Nottinghamshire's ability to attract EU funding outside the CSF framework and to leverage in private funding as well. UK policies, dominated by the centre, hampers the development of local/regional private sector institutional capacity. Thus local authority horizontal networks are developed among other local authorities (both within the UK and across Europe) to bring in resources which can compensate for their lack of local private resources and expertise.

In both cases, the influence of the EU has strengthened the local government's position. Since they represent the main conduit to European funds, and the natural point to integrate private and public resources for mutual benefit, their potential as a local partner increases. Thus the second hypotheses, which stated that, no matter the starting point, the EU would encourage network building, has been corroborated.

8. CONCLUSIONS: INSTITUTIONAL NETWORKS AND INDUSTRIAL RESTRUCTURING

INTRODUCTION

I have tried to show that subnational institutions can, to widely varying degrees, help moderate the process of industrial restructuring and promote local economic development. I have hypothesized that at locally governing the economy will be most effective if a locality:

- possesses (or is able to build) thick institutional networks linking up public and private resources at multiple levels of interaction and if
- those networks have a learning capacity whereby institutional relationships and policy support adapt to meet changing politico-economic conditions.

This institutional capacity is shaped and conditioned by and may conflict with:

- the structure of the State and the territorial and functional division of power and resources
- the structure of the industrial sector and its boundedness to the political administration
- the manner in which the locality is affected by and can take advantage of the policy environment of the European Union

This final chapter evaluates the validity of this theoretical framework for understanding how events unrolled in our two cases. It is subdivided into three sections. Section I compares the effects of structural factors on local

capacity. Section II, relying on the indicators of learning established in chapter 2, first assesses the learning capacity of each case study, and then draws more general conclusions regarding institutional networks and learning capacity. Finally, section III discusses the general theoretical implications which emerge from these conclusions.

I. STRUCTURAL CONDITIONS AND LOCAL INSTITUTIONAL CAPACITY

The ability of local authorities to respond to industrial decline is shaped by two competing but concurrently intersecting influences; subnational institutions and national/international structures. These structures set the parameters of local activities while the local institutional architecture, which develops partially in response to these structural constraints, shapes local capacity to act. In other words, strong local institutions may find alternative routes to accomplish objectives which circumvent (or at least mediate) debilitating constraints or may harness new opportunities which emerge from structural conditions. Using the two cases as the empirical foundation, this section draws general theoretical conclusions regarding how state, industrial, and European structures have impeded or facilitated local capacity to manage industrial change. Each structure will be examined individually.

I-A. STATE STRUCTURE

There is clear indication that state structures have a significantly impact on the shape of local networks and the development of a subnational economic governance capacity. The empirical evidence suggests that three interrelated factors are particularly influential: the degree of resource dependencies among tiers of government, the extent of centralization within the state, and the presence of regional government.

Resource dependencies, or interdependence (even if asymmetrical), are a function of the way in which powers and resources are allocated between Central and subnational government and between the public and private sectors and thus establishes the measure of autonomy local actors enjoy. This research provides support for the theoretical assumption that interdependence, as opposed to autonomy, is the foundation of network development. Multiple networks were better developed in Prato, although the city possessed only limited functions in the field of economic development (functions which it shares with other levels of government) and no real powers at all in the area of industrial assistance or local taxation. Thus, intraregional functional networks provided the locality alternative channels to pursue policies that were legally forbidden to local authorities acting independently while intergovernmental networks were crucial for channelling resources and coordinating policy to temper the negative externalities of competition. In Nottingham, alternatively,

the historical legacy of the dual polity, local taxing powers, and the vagueness of the initial laws concerning local development provided a relatively greater scope for local policy autonomy. As the laws governing economic development became more precise, they became more restrictive. These new constraints have forced local authorities to build links with the private sector to obtain resources and competences to act in ways which are now prohibited to them; a situation clearly parallel to the Italian case. However, if policy constraints are encouraging public-private networks, the centralization of financial power has increased local dependence on central funding with a detrimental effect on network-building; it keeps the networks vertically structured and focused on the specific central government departments.

If interdependence is the foundation of network development, then logically it follows that the centralization of power hinders the formation of local networks and local capacity. First, increasing dependence on central resources coupled with the national shift from regional to urban assistance in terms of government development priorities, has stimulated competition among localities (of which Nottingham and Nottinghamshire are exemplary), thus effectively undermining attempts at regional collective action (Anderson, 1990). This inability to merge a range of subnational resources to promote joint development strategies then, paradoxically, ties the locality more firmly into the orbit of the centre; ergo an institutional vicious circle (dependence on central funding--interlocal competition--no collective

action--need for central funding). Second, the consequences of many of the Centre's privatization policies, according to Stoker (1991), is that local development has had to rely primarily on land use strategies; offices, housing, shopping malls and has done little to resolve the serious economic problems they were intended to attack. The Nottingham case clearly supports Stoker's conclusions as the city's industrial support policy devolved from ambitious institution-building to stimulate large-scale changes in industrial production processes to land-use strategies which depended upon office-building schemes to subsidize the provision of textile workspaces. Thus, centralization has forced local authorities into a limited range of development initiatives; all of which conform to the central's ideological conception of the appropriate role of the state in the economy. Rather than promoting policy learning and policy innovation, the Centre's policies have encouraged a minimalist approach to development.

In Prato, alternatively, the range of policy initiatives expanded to meet the changing demands required of the restructuring process and these initiatives were actively supported by the region through financial measures as well as through the region's own development initiatives (i.e. CESVIT). The wide dispersal of development resources (city, province, region, private sector) and the need for new types of resources to cope with industrial decline (i.e. stronger university links) encouraged network-building on a larger scale, and thus in Prato, we saw network expansion to make up for declining resources, rather than the institutional vicious

cycle which developed in Nottingham. Hence, the empirical evidence provides support for the first hypothesis that centralized state structures limit the development of local networks and impede local learning.

Alternatively, the presence of an elected, autonomous regional government can make a substantial difference on the development, strength and effectiveness of local institutional networks, and access to external resources as the Prato case demonstrates. Tuscan regional initiatives and regional actors complemented local initiatives and broadened the networks in which Prato was involved, thus creating access points such as CESVIT, for information and technology transfer. The region also played an important part in helping Prato access a variety of European funds to support key initiatives (i.e. SPRINT, CQT). Finally, the Region's choice to deal with the Consulta Economica as the voice of the Prato instilled it with legitimacy and purpose which compensated for the national government's rejection of the Consulta's development strategy which had led to a questioning of the role of the Consulta by many of its members. Thus, activities of higher levels of government can influence the strength and endurance of local institutional networks, either positively or negatively.

In Nottingham, although the County's role has grown over time, it cannot truly function as an autonomous region. The Centre's usurpation of the regional role has hindered access to European funding. Furthermore, the presence of a number of separate regional offices maintains arbitrary distinctions among local networks. Rather than developing a single,

cohesive network structure covering multiple development issues as in Prato, Nottingham has a maze of different networks, attached to specific regional offices (i.e. business support/DTI, urban funding/DOE, training/Employment Department) with no integrating centre, which has discouraged the creation of coordinated development strategies. The UK government's recent merging of these three departments with the Department of Transport into a single regional office is an attempt to overcome this problem. It is still in its early days, but the prognosis so far regarding these integrated offices is that little has changed. The concurrent movement toward smaller, unitary authorities within the UK seems, therefore, a step in the wrong direction which will only further serve to emasculate local authorities and further weaken local government as a credible institution of economic governance.

II-B. INDUSTRIAL STRUCTURE

The degree of state centralization, however, is not the only influence on local capacity but dovetails with the degree to which the economy is centralized. In terms of economic governance, the most important variable is the extent to which these two structures are complementary. In other words, local economic governance capacity is strongest when economic decentralization parallels political decentralization (the economy and polity are bounded). In fact, the central assumption bolstering the localization/regional resurgence

thesis is that in many areas the economy is decentralizing thus the most appropriate governance level is subnational. It follows that where the economy and the polity are centralized, then economic governance is potentially most effective at the national level.

The empirical evidence does provide general support to these assumptions but the picture which emerged in our two cases is more complicated than these general assumptions would suggest. In Prato, greater economic decentralization parallels greater political decentralization. The development of the private sector mirrors this dual decentralization; all the representative associations have both a territorial and functional mandate which has allowed Prato to develop a strong system of local economic governance which centres equally on private sector representative institutions and cooperative intergovernmental networks. Industrial restructuring, however, is redrawing somewhat the boundaries between the economy and polity in Prato. The Prato textile system is globalizing. Although the locality, given its central position within international markets, will remain a vital area of governance, the effect of globalization is the redistribution of power among firms and among their political representatives, favouring some and impairing others. In response to the expansion of interfirm networks, the local governance system is similarly evolving and can now be better characterized as a regional governance system. Networks are broadening to include regional and national actors, especially in the areas of innovation and technology transfer where local networks

have proved lacking.

In Nottingham, where a high degree of political centralization parallels economic centralization, it has been difficult to build up credible institutions of local governance. The way in which both the political and the economic structures have been transforming over the past decades, however, have produced contrary influences on local capacity. On one hand, state structures have centralized while, on the other hand, the increase of quality-driven small firms suggests that some economic decentralization has occurred. In fact, Nottingham's early initiatives, especially the Fashion Centre, can be interpreted as a direct attempt to promote economic decentralization in order to establish a feasible system of local economic governance. However, given that the industry remains somewhat centralized, a lack of fit between functional and territorial institutions persists resulting in a weak local private sector capacity. Consequently, the most successful partnerships have been with textile firms; not more representative institutions. Comparing the two cases, it does seem that local institutional thickness is indeed fostered by boundedness, whereby economic and political decentralization occur together thus providing support for our third hypothesis. Although institutional thickness does matter as Prato's support structures and the range of support policies are indeed better developed, evidence of some limited learning is still apparent in the english case. Thickness matters but it does not guarantee a learning, supportive environment; thus the absence of

thickness may hinder it but it does not prevent effective development.

I-C. THE EUROPEAN UNION

Local capacity for economic development, however, has been given a boost with the strengthening and enlargement of the EU. Chapter seven did provide convincing evidence for the fourth and fifth hypotheses that regions with strong networks would be better able to maximize European opportunities (Prato was able to use European funds to leverage in substantial private funds) and that, whatever the starting point, involvement with the EU would encourage increased networking efforts. Equally, the empirical work makes an important contribution to our understanding of the europeanization and local institution-building in three further ways: europeanization strengthens rather than alters local conditions, Europe acts as a counterbalance against the nation-state, and the role of local authorities within economic development has been enhanced.

First, europeanization does not change the structures of local institutions but, instead, strengthens the structures which are already in place. EU policy is filtered through national and local institutions. This is most clearly demonstrated by the way in which local networks were enhanced. In Prato, European resources were easily integrated into well-developed local strategies. This fruitful intersection of strong local sectoral networks and effective intergovernmental

networks (between region, province, and city) encouraged the leveraging in and purposeful coordination of both private, public and EU funding. EU resources also became an important part of local institutional bargaining (as many local associations benefitted), providing resources to be distributed among the network actors, thus strengthening local networks by providing financial incentives for institutional learning. In Nottingham, EU funding alternatively strengthened the UK trend to build intergovernmental networks rather than strengthen local public/private networks. Nottingham and Nottinghamshire were quite adept at building national and European local authority networks as a conduit to new information, new knowledge, and idea transfer. The vertical structure of the EU partnerships also discourages local network building which is demonstrated by the lower levels of private money leveraged into the UK policies and the types of policies which emerged. Although Prato discusses expanding European links and Nottingham appreciates the value of private sector participation, recognition is not equivalent to taking appropriate action, especially when national and local structures and institutions are pushing the locality in a particular way. Thus, in each case, the EU strengthened trends that were already in place.

Second, the EU does indeed act as an effective counterbalance against the nation-state from the subnational point of view. One Prato observer noted:

The impact of the EC on local initiatives is very important. We could not have done anything without EC money. They make a decisive contribution. They oblige

other levels of government to pay up.²⁴⁰

Thus, in Prato, the EU has been an political effective lever that subnational government can use to combat the sluggishness of the Italian bureaucracy. Similar effects have been experienced in the UK. The Commission refused to deliver money from the RECHAR project until the UK government dealt with a fairly serious breach of the EU's additionality requirements.

Finally, europeanization has strengthened the position of local authorities in the field of economic development. Since EU funds make such an important financial contribution above and beyond public contributions and private sector participation, the role of subnational authorities has been effectively enhanced as they represent the a crucial conduit into EU funding regimes. The increasing dispersal of resource between tiers of government and the private sector begs for an agency which can effectively integrate those resources for the good of the whole. The EU, through the establishment of the partnership contract, acknowledged that subnational authorities were best placed to fill this role.

II. NETWORKS, POWER AND LEARNING

Chapter two argued that learning is a function of past policy attempts and their interpretation, institutional capacity to design and follow through on new activities, changing ideas, and the balance of power among actors; all of which are influenced by the networks which surround the policy domain.

²⁴⁰ Interview 2.

Part A of this section measures the learning capacity, using the five variables discussed in chapter two. Part B then looks at the learning capacity of different types of networks; allowing us to conclude what types of networks best promote economic development.

II-A. ASSESSING LOCAL LEARNING CAPACITY

Five variables were established to measure the learning capacity of local institutions. Variable one, the presence of multiple fora for promoting dialogue, measures the degree to which dialogue is promoted among various actors, which is an integral part of institutional capacity to design new activities and promote a shared understanding of local policy successes and failures. Variable two, network change and adaptation, identifies changes in the balance of power among the actors over time. Variable three, policy innovation looks at the evolution of policy over time, how it has been interpreted and how local networks responded to new ideas and institutional changes. Four, a common understanding of the problem, is required for learning to develop because if all the players have different conceptions of the problem and its potential solutions, conflict rather than dialogue will dominate. Finally, the fifth variable, the presence of appropriate channels between the private sector, especially firms, and the policy process, allows public and private sectors to share knowledge, information, policy feedback, and other resources which supports the design of new policies and

the finetuning of those in place to meet development needs. These variables are summarized in table 8.1.

Table 8.1
Measuring Learning Capacity In Prato and Nottingham

MEASURING LEARNING	PRATO	NOTTINGHAM
FORA FOR DIALOGUE	1. Integrated Proj. 2. Ind. Relations 3. Consulta 4. Centro Formaz. 5. EU negotiations 6. SPRINT committee 7. REMTEX	1. Fashion Centre 2. Work & Tech. Advisory Board 3. REMTEX
NETWORK CHANGE	1. Expansion to University 2. Increasing Regional presence 3. SPRINT includes many national actors and non-local firms 4. Increasing incorporation of marginal actors into local fora 5. redistribution of power among associations	1. TECS 2. Changes in Trade Unions, Training agents 3. LATC/ACTE 4. partnerships with firms
POLICY ADAPTATION AND INNOVATION	1.Tecnotessile 2.Consortia 3.Integrated Project 4.SPRINT 5.CQT 6.Gulliver/ Grantessuto 7.CESVIT	1.Fashion Centre 2.Lace Market Strategy 3.Work & Tech. Project
COMMON UNDERSTANDING OF THE PROBLEM	Present	Absent
CHANNELS BETWEEN PRIVATE SECTOR AND POLICY PROCESS	1.Associations 2.Consortia 3.Research centres	1.TECS 2.Partnerships 3.LMMA 4.Fashion Centre 5.Nottingham Trent

Learning capacity is defined as the ability to adapt both

policy and institutional relations to meet changing conditions. Many of the variables used to measure learning capacity capture both components of learning. Fora, a common understanding of the problem, and the nature of the channels between firms and policy process are crucial for both policy learning and for redefining institutional relations. Network change focuses primarily on institutional relationships (although networks as a source of new ideas has an impact on policy learning) while policy innovation measures predominately policy learning. Prato is characterized by multiple fora for dialogue while in Nottingham, attempts to establish some type of textile forum have been impeded by the weakness of private sector institutions and central government policy. Although Prato's earlier fora were either bilateral with regard to specific issues (industrial relations) or arguably unsuccessful (integrated textile project), the economic crisis was adequate incentive to promote multilateral fora for specific policy areas (i.e. SPRINT, Centro Formazione), and for wider economic issues (Consulta, CSFs). Despite many ups and downs, the fora have been able to recast the collaborative relationships developed through bilateral industrial relations into multilateral networks and, thus, have promoted both policy and institutional learning. Prato has been rewarded for its efforts by private sector, regional and European financial support, and the creation of common strategies, all leading to clear signs of renewed growth and successful restructuring.

Nottingham fora, alternatively, have been few and, for

the most part, of questionable effectiveness. The advisory committee of the Fashion Centre was abolished when the centre was reabsorbed into the local authority. Many of the actors which served as formal and informal partners to the NCC's textile initiatives, the trade unions and the industrial training boards, were weakened (if not altogether lost) by central policies aimed at diluting union strength. In recognition of private sector weakness, the NCC encouraged the establishment of the Lace Market Manufacturers Association but its remit remained limited to combatting office development rather than larger issues of local governance and restructuring. Although no local forum was established, the EU, through the REMTEX programme, tried to encourage a regional forum but its one-off nature, and the lack of a common definition of the problem among the various groups (see below) could not be surmounted. Only recently, through the advisory committee of the Work and Technology project has some type of fora been reestablished and with the TECS and independent firms on board, private sector input has been assured. Overall, limited and unstable private sector representation has an obstacle to maintaining local fora, and establishing cooperative networks among actors relevant to the textile industry; hence learning in Nottingham has been seriously impeded.

The second variable, network change, can be charted in both cases but they were stimulated by different sources. In Prato, network change has been stimulated from the bottom-up, in response to economic restructuring while conversely in

Nottingham, network change has often been forced from the top-down, as localities are confronted with new rules, new actors and the redistribution of political resources emerging from national policy. In other words, changes in Prato emerge primarily in response to economic restructuring while network changes in Nottingham were a consequence of political restructuring.

In Prato, local networks have been altered in three fundamental ways. First, there has been an increase in weak ties, an action intended to stimulate innovation within the local system. As industrial relations are no longer the heart of local governance, new actors, such as the University of Florence and the Province, have been absorbed into general information networks while specific actors, such as ENEA are part of specific policies (SPRINT). Second, the region, as opposed to the locality, is becoming a key arena for networking activities. The region is now a critical actor in many initiatives both local (SPRINT, the Consulta) and regional (EU programmes, CESVIT). Finally, the once more marginal actors are being included in network activities (Consulta, Centro Formazione) and policy is being developed to meet their needs. Support for both restructuring and reconversion will be a fundamental feature of the new Prato development agency. Thus, network changes have indeed reflected changing local conditions, opening up the older networks to fill the lacuna that the tighter, smaller, industrial relations-based networks could not manage on their own.

In Nottingham, network change has been imposed from above. While Prato adapted to new economic conditions, Nottingham was a forced conform to political circumstances. First, the range of actors in the policy domain has fluctuated with the decline of certain actors (trade unions and ITBs) and rise of others (TECs, NDE). Consequently, the network which supported the Fashion centre, including a range of textile actors, was subdivided into a set of smaller, disconnected networks with a more limited focus; the Lace Market network, a strong but nationally-centred sectoral network among the ITBs and KIF, and the network surrounding the counties policies. Second, the dominance of central government departments keeps networks separate by policy area and thus multiplies the number of actors involved in some element of economic development. Consequently, network change responds to central policy change, as opposed to local need. Thus relational changes have not been stimulated by learning, as in the case of Prato, but have been imposed by central policies.

Although the third variable, policy innovation, is better developed in Prato, there are some interesting similarities between cases. First, many of the initial policy ideas sprang from party philosophy. Prato's pre-crisis activities conformed to the well-known model of endogenous development championed by the PDS. The Nottingham Fashion Centre was developed within the policy agenda of the Urban Left and represented a real attempt to restructure for labour, assist SMEs and encourage economic decentralization. Second, intergovernmental networks have become increasingly important as a source of new policy

ideas. In Nottingham, the focus was on interregional (LATC) and transregional (Four cities, Eurocities, ACTE) exchanges while in Prato, the local actors expanded their involvement within the region. The similarity ends here as the way policy evolved differs quite substantially.

In Nottingham, the lack of a common understanding as to why the Fashion Centre was unable to fulfil its original mandate, the loss of the early network which emerged around the fashion centre because important actors (i.e trade unions and ITBs) were in the process of painful organizational changes, the entry of new economic development actors (TECs), and the Centre's constant pressure on local finances and growing power over the content and tools of local policy, ultimately undermined the local learning process and lead to policy reversion. Innovative policy practices were supplanted by a return to factory units provision and grant assistance as key tools to assist textile firms. The new model of development was unable to find a real foothold in the city. The lessons of the Fashion Centre, however, were not lost but were better interpreted by the county. Relying on personnel who had been involved in the design of the Fashion Centre, the Work and Technology Project supports similar aims (restructuring for labour), but follows a different strategy; one better suited to the realities of local conditions. Thus, the Work and Technology programme thus does represent policy learning.

In Prato, there has been much greater degree of policy experimentation and innovation. Unlike Nottingham, Prato's

institutional landscape (at least in terms of actors involved) has been fairly stable and the majority of the policies which emerged were developed from strong interfunctional networks as the locality attempted to get to grips with the economic crisis. The range of policies which emerged were all targeted at commonly interpreted weaknesses in the industrial structure (i.e. quality improvement/CQT, innovation/SPRINT, firm size/Grantessuto). Policy learning was a direct result of institutional learning. As participants learned to work together through various fora, transforming collaborative bilateral relations into a multilateral dialogue, a range of policies and institutions were generated. For example, CQT grew out of the consortia. Having learned the benefits of acting collectively to meet well-defined common goals, the next step was a consortium of consortia to manage more expansive and more expensive projects.

The fourth variable, general agreement regarding the problem being addressed, differs in both cases. In Prato, there was general agreement both within local networks and within intergovernmental networks regarding the problems which require attention (smallness of firms, weak innovative capacity, weak, non-entrepreneurial public sector, inefficient communications system, quality improvement, and some diversification) and the belief that economic governance was a local task. In Nottingham, the situation could not be more diverse. The public authorities see the problem as one of industrial structure. The LMMA identifies the main threat as lower-priced imports and believes the only viable policy are

national tariffs. The KIF is opposed to initiatives which distort competition (i.e. RETEX), while views technology and automation as the way forward for British industry. The central government places industrial fortunes to the free market, thus has managed to scale back Nottingham's policy from innovative and interventionist to standard support measures such as factory unit provision. Given the wide variety of opinions regarding the problems and the appropriate role of government, learning, then as a collective pursuit, is weak because dialogue has no starting point. Without regular fora, or network exchange, it is doubtful that a shared view, thus collective governance, will emerge.

Finally, the fifth variable, the presence of adequate channels between firms and policy support structures is a crucial component of a learning economy as it provides the link between political processes and economic activity. Without that link, even the most sophisticated institutional architecture would be unable to promote development. Looking at our two cases, it is clear that Prato, with a strong tier of firm associations, has the better articulated channels between political processes and firms. In fact, many of these associations, especially the UIP, has consistently provided a leadership role in the policy support processes (consortia, Tecnotessile, SPRINT) as have the craft associations (Gulliver, Grantessuto). In Nottingham, these channels have been particularly weak. The TECs, in fact, were created specifically to improve these channels but the TECs themselves are in an odd position. Being neither fully public nor fully

private actors, TECs have often had difficulty defining their role within the community. To fill this lacuna, the LMMA was established, but its role remains limited and marginal. Partnerships with individual firms has been the recent method of choice. Although not the best alternative, given the absence of these channels it may arguably be the only way forward.

Using these five variables, it has been demonstrated that both policy and institutional learning are better developed in Prato. The next section looks at why this might be so, by examining how different types of networks have encouraged or hindered learning in the two cases.

II-B. NETWORKS AND LEARNING

This section assesses how different network structures effect learning capacity. It represents a test of our main hypothesis that dense intraregional functional networks have the better developed learning capacity. Table 8.2 summarizes policy by type of network. Prato's policies emerge from primarily the same central functional intraregional network while Nottingham has a wider range of networks surrounding various policy areas, with the greatest number emerging from intergovernmental networks. However, categorizing policy by territory and dominant actor alone cannot explain why Prato rated so much higher on the learning scale because Nottingham's main policies were indeed a product of these

Table 8.2
Policies by Network Type in Prato and Nottingham

TERRITORY	INTRAREGIONAL		INTERREGIONAL		TRANSREGIONAL	
	Prato	Nottingham	Prato	Nottingham	Prato	Nottingham
DOMINANT ACTOR	Prato	Nottingham	Prato	Nottingham	Prato	Nottingham
GOVERNMENTAL	Aqueduct Water Purification	Business Support Training Dying & Finishing CSF committee		LATC (RETEX)	ACTE	ACTE 4 Cities Network Eurocities
SECTORAL	Social Fund Consortia Tecnotessile	Stitching Up Your Future		Training		
FUNCTIONAL	Consulta SPRINT Centro Formazione Integrated Textile Project Gulliver Grantessuto CQT Macrolotto Transport Centre CSF committee	Fashion Centre Lace Market Work & Technology				

types of networks (albeit with a different selection of actors for each initiative). In fact, this would seem counterintuitive since a wider range of networks potentially offers more channels of access to a seemingly larger pool of external resources, especially knowledge and information.

Instead, the evidence suggests that the important variables are not necessarily who participates or the territory those networks cover but learning capacity, the ability to adapt policy and institutional relations to meet new conditions. Learning capacity is not effected by these descriptive categories but is encouraged or impeded by the structure of the networks (density, centralization and shape). Prato and Nottingham have vastly different network structures, and it is these differences which offer a more convincing explanation as to why Prato's learning capacity was so much better developed.

Looking at density, Prato's networks, with a density of .83 out of 1, were substantially denser than those found in Nottingham (.53). Prato's dense networks encouraged the development of strong bonds of trust both among individuals and institutions, good working relationships that spanned multiple policy domains making the central network an important focal point for integrating a variety of development-related activity, and the creation of a common purpose and shared rules of the game even while diversity of interests were preserved. Density promotes and sustains dialogue and allows for failed efforts without undermining the value the participants put on maintaining a running dialogue.

In Nottingham, lack of overall density among the range of actors supported the separation of networks by policy area, thus the generation of multiple games (and multiple rules) governing institutional interaction. Without commonly understood modes of interaction, dialogue and the collective creation of a shared industrial purpose, important components of learning were seriously hindered.

Variation in the degree of centralization between networks in Nottingham (centralization 64%) and Prato (centralization 28.6%) is also especially marked. In short, multiple leadership roles among the public and private sector distinguishes Prato from Nottingham, which depends almost completely on the public authorities to act as the *animateur* of development initiatives. Although having a number of local 'leaders' undoubtedly ensures a high degree of conflict in many proceedings, it also offers a range of diverse initiatives, learning opportunities, and the need for actors to listen to each other. Learning to learn does not emerge solely from interacting in the policy process but from interacting in multiple spheres of activity. Furthermore, since the local leaders are all interlinked through dense networks, they each hold adequate power so that even their unilateral activities will effect all other institutions; hence, the need to sit down and work things out. Multiple leadership positions support redundancy, which creates a wide range of channels of access for firms and other actors. Thus multiple leaders allow for greater access to information than in centralized structures.

Within centralized structures, information is not shared and jointly interpreted but transmitted through the actors positioned in the centre of the network. Therefore, in Nottingham, local authorities which were placed centrally in the information networks act as a bridge between actors, between policy areas, and between ideas. For learning to occur, ideas and information must be shared, discussed, debated, argued, and eventually collectively interpreted among all those whose actions will ultimately impact on policy outcomes. Centralized structures means that interpretation is a product of the central actors, and does not emerge from the wider community, ergo learning is stunted.

The last structural component, shape, which refers to whether a network takes on a more vertical or a more horizontal structure, is a function of the way power is distributed among network participants. The empirical work makes a powerful suggestion regarding our general understanding of networks; within vertical networks power relationships dominate which results in the suppression of local learning capacity while horizontal networks are more likely to promote learning²⁴¹. As Deutch eloquently puts it, power can be understood as "the ability to talk instead of listen, the ability to afford not to learn (cited in May, 1992, p.341)."

²⁴¹ Even in perfectly horizontal structures, power relationships, can of course, come to dominate the process at the expense of learning relationships, especially during periods of crisis. However, the recognition of mutual interdependence is more likely within horizontal networks which is a crucial first condition for learning, making learning much more likely within horizontal networks.

Nottingham networks are more vertically shaped given the dominance of central government departments. The growing concentration of resources in the centre has kept local authorities locked into these constraining relationships as their dependence on central resources continues to increase, thus the balance of power has moved increasingly toward the central government, with negative or distortive effects on local network building and policy learning. Rather than learning from its past experiences, Nottingham's policies and institutional relations concerning the textile industry declined from innovative and ambitious to the bare minimum using ineffective policy tools. Alternatively, Prato is marked by horizontally structured networks between levels of government and public and private actors. The range of policy tools and initiatives expands and adapts to changing conditions while, crucially intergovernmental relations have been used to support and strengthen local functional networks, even help them adapt to changing conditions, while, in Nottingham, the strength of the central-local axis, inhibits their development. Although the Prato policy process was often slowed, halted or redirected by the internal power struggles among the actors, the repeated attempts by the local authorities to create and maintain a multifaceted dialogue, and the region's support of those efforts, has indeed born fruit with a wide range of policy initiatives, better developed and wider local networks, and clear evidence of economic renewal.

In sum, the structural aspects of networks offer a better

explanation of network learning capacity than did the more descriptive categories of territorial scope and dominant actor. Although density appears to be coterminous with an intraregional functional network in our case studies, the creation of, at least project specific intraregional functional networks for certain individual policies in Nottingham suggests that the main hypothesis, that intraregional functional networks promote learning, should be revised somewhat. Rather dense networks better sustain a learning environment. Territorial scope and dominant actor may influence the degree to which density develops, but it is density and lack of centralization which provide the backbone of learning networks.

III. GENERAL IMPLICATIONS FOR THEORY AND POLICY

This final section outlines the general theoretical and policy implications which emerge from this research. On the theoretical side, the growing recognition across disciplines of networks as increasingly common organizational forms of governance, which have emerged in response to resource dispersal, uncertain and unstable environmental conditions, and increasing constraints on any agent's ability to achieve its goals individually, must prompt us to ask if concepts such as autonomy or even sovereignty are an arrogance of an earlier era? As the European Union may indeed have initially been a way to renew the nation-state by giving each nation partial influence on the actions of others and merging the resources

of all states in domestic, European and international arenas, so do networks increase the action capacity of subnational authorities by linking them into a larger pool of resources and expanding their influence over a range of other actors' activities. In almost no cases do we see a local authority going it alone, but always in cooperation with other actors. Although the growing need to build networks indicates a loss of autonomy on the part of local authorities, the evidence presented here suggests that this loss is compensated by a gain in action capacity and, paradoxically, in the overall enhancement of subnational authorities' role in the development process.

The dispersal of development resources between tiers of government and between public and private sectors demands an agent which can integrate those resources, especially the growing rate of funding sources. Subnational authorities are the one of the few actors with the requisite legitimacy²⁴² to oversee the use of public resources, thus making them critical partners in development activities. In sum, although networks do represent a loss of resources, especially the autonomy of individual agents, they also provide those agents with the means to accomplish objectives, albeit through collective methods and activities.

Second, the emphasis on networks as a form of collective governance, in which autonomy is a function of collective rather than individual action, also calls into question the

²⁴² The legitimacy of such actors as Quangos, which can also assume this role, is a fairly substantial question and beyond the scope of this thesis.

state/market dichotomy and their respective theoretical frameworks which are still used in powerful circles to explain outcomes and design policy, especially economic policy. Networks, as structural realities, represent intermediary institutions; instruments which can mediate the effects of state and market activity and thus provide a partial explanation of uneven development. The common reification (arguably deification) of the State and the market as omnipresent and omnipotent actors obscures the activities of subnational actors, which we have shown can mediate those forces, to varying degrees and thereby partially alter them to suit local conditions.

Economic development, therefore, is not just a function of either state or market activity but is, instead, a socially and institutionally embedded process. The development debate, heretofore divided between left (which stressed state governance of the economy) and the right (which emphasized governance by a self-regulating market), has only recently come to recognize that these forces are shaped by local and regional conditions; a crucial factor when trying to explain uneven development within nation-states. These are neither new nor revolutionary ideas, but represent a rediscovery of earlier insights advanced by Polanyi (1944); an important rediscovery because it suggests that regions do, indeed, matter. I will return to this point further down.

In terms of policy, this research offers several insights. First, the evidence suggests that the denser or thicker the regional institutional infrastructure, the better

able it is to respond collectively to economic challenge, although this process is by no means easy nor is success guaranteed. The research also suggests, however, that even in the absence of strong subnational institutions, local initiatives can have some small effect, if policy ambitions does not exceed governance capacity and that policy is appropriate to local conditions. This suggests, however, that self-learning is a fundamental component of the overall learning process.

More specifically, this indicates that policy-copying is indeed a dangerous undertaking if done in ignorance of potential differences in governance structures and institutional capacity. Emulation first requires reflection and consideration, it should not be pursued lightly or whimsically.

Finally, this thesis does provide support for a mixed model of development. Although it clearly suggests that endogenous capacity is a crucial component of local development, in both cases, innovative capacity was enhanced by reaching out for external resources that could be brought to the area by non-local firms and other actors; suggesting once again that regions are becoming increasingly important actors in many arenas of interaction.

In both cases the activities of the region was a crucial force; in Prato the region served as animateur of development and local networks, in Nottingham, dominated by a central government region, it was a hindrance. More precisely, the degree of regional support of local efforts was an influential

variable for promoting local learning and institutional capacity.

The Maastricht Treaty has enhanced European support for the regions both economically through a doubling of the Structural Funds, and politically through the Committee of Regions. This growth of European support (which its a clear bias toward directly, elected regions) and the concurrent erosion of central government's regional development function (Leonardi and Garmise, 1992), coupled with evidence of economic decentralization and the localization of economic activity, further stressing the embeddedness and instituted nature of economic processes, all point to the increasing importance of the region as a key locus of economic governance. A Europe of the Regions? Perhaps!

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APPENDIX

Department of Government
LOCAL INDUSTRIAL POLICY STUDY
Interview Schedule
Associations

Interview No.

Objective: I am interested in studying the role partnerships play in the process by which local industrial policy is made and implemented. You and your organization have been identified as significant actors in this process. I would like to talk with you about local policy toward the textile and clothing industry and the role you have taken in its development. Since interviews are being carried out in two countries with a variety of different organizations, I will follow an interview schedule to guarantee I cover all topics in a quick and efficient manner.

PART I: GOALS, PURPOSES, AND INTERESTS

A. I would like to start by asking you a few general questions about your organization.

1. How would you describe the main activities and functions of your organization?

2. When was your organization established?

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3. What is the membership of your organization?

4. How many people does your organization employ? (nationally, regionally, and locally)

5. How many offices do you have in Nottingham, Nottinghamshire, and the East Midlands to serve your members?

6. What services do you offer your members?

7. Does your organization receive any financial support from the City or County Council? Any commercial contracts?

8. Are there any City or County Councillors on your Board of Directors? if yes, specify name and Committee

PART II: LOCAL INITIATIVES

A. I am going to give you a list of all local initiatives taken by the City and County councils. For each policy, could you tell me if you participated, how you participated and who asked you to participate, and if you were instrumental in gaining the participation of others?

- ____ 1. Lace Market Strategy _____

- ____ 2. Fashion Centre _____

- ____ 3. Stitching Up Your Future _____

- ____ 4. Dying and finishing Initiative _____

- ____ 5. Textile Training Centre (Clothing and Knitwear
Industry Training Centre) _____

- ____ 6. Fashion Designer Studios/Enterprise Workshop _____

- ____ 7. Clothing Operatives training scheme _____

- ____ 8. Textile workshops: Specify _____

- ____ 9. Enterprising Nottinghamshire _____

- ____ 10. Work and Technology Project _____

- ____ 11. Textile and Clothing Seminars _____

- ____ 12. A Common Agenda _____

- ____ 13. Trade Missions and Export Seminars _____
- ____ 14. Nottinghamshire Training Opportunity _____
- ____ 15. Textile Careers Roadshow _____
- ____ 16. Business Support, specify _____
- ____ 17. other training, specify _____
- ____ 18. other, specify _____
- ____ Other initiatives toward the industry not generated by the local government. Please specify _____

B. In general, do you feel that you have some degree of influence on the policy process? _____ How much?

____ a good deal

____ some

____ very little

____ none

C. In general why did you participate in local initiatives? What results were you hoping to achieve?

D. In general, how would you assess your relationship with the:

Nottingham City Council? _____

Nottinghamshire County Council? _____

2. Do you have regular and routine contact with the City Council? _____ Which Departments? _____

a) How often?

_____ weekly
_____ monthly
_____ every few months

b) What form does that contact take?

_____ formal meetings: specify _____
_____ informal settings such as lunch
_____ phone contacts
_____ social events
_____ letters/correspondence

3. Taking into account all the contacts with the City Council, what percentage of the total time do you meet with councillors? _____ %
with officers? _____ %

4. Do you have regular and routine contact with the County Council? _____ Which Departments? _____

a) How often?

_____ weekly
_____ monthly
_____ every few months

b) What form does that contact take?

_____ formal meetings: specify _____
_____ informal settings such as lunch
_____ phone contacts
_____ social events
_____ letters/correspondence

c) Taking into account all the contacts with the County Council, what percentage of the total time do you meet with councillors? _____%
with officers? _____%

PART III. ASSOCIATIONS AND ORGANIZATIONS

A) I am going to give you a list of all associations and organizations that have had some involvement in initiatives toward the textile industry. Could you tell me with which groups you regularly have contact with and undertake joint projects with?

Business Associations

- ____ 1. Lace Market Manufacturers Associations _____

- ____ 2. Knitting Industries Federation _____

- ____ 3. CBI _____

- ____ 4. Nottinghamshire Chamber of Commerce and Industry

- ____ 5. Lace Market Retailers _____

- ____ 6. Business in the Community _____

- ____ 7. Other, specify _____

Training Organizations

- ____ 8. KLITRA _____

- ____ 9. CAPITB _____

____ 10. North Nottinghamshire TEC _____

____ 11. Greater Nottingham TEC _____

____ 12. Textile Group Training (TGT) _____

____ 13. Other, specify _____

Trade Unions

____ 14. KFAT _____

____ 15. GMB _____

____ 16. TUC _____

____ 17. Other, specify _____

Education Institutions

____ 18. Nottingham Polytechnic _____

____ 19. University of Nottingham _____

____ 20. Clarendon College of Continuing Education _____

_____ 21. West Nottinghamshire College _____

_____ 22. Other, specify _____

Public/Private Organizations

_____ 23. Lace Market Development Corporation _____

_____ 24. Nottingham Development Enterprise _____

_____ 25. Fashion Centre _____

_____ 26. Nottinghamshire Business Venture _____

_____ 27. First Enterprise _____

_____ 28. Nottingham Task Force _____

_____ 29. British Coal Enterprise _____

_____ 30. Other, specify _____

Private Sector

_____ 31. Individual Textile and Clothing Businesses,
specify, _____

_____ 32. Property Developers, specify _____

_____ 33. Consultants, specify _____

_____ 34. Banks, specify _____

_____ 35. Other, specify _____

Voluntary Sector

_____ 36. St. Ann's Training Workshop _____

_____ 37. Nottingham Textile Society _____

_____ 38. Other, specify _____

Other

_____ 39. Specify _____

2) Are you or any one in your organization a member or on the board of Directors or Advisory Committee of any of these associations? Which ones?

3) Do any of these organizations or their leadership hold membership or have representatives on your organization's board of directors or advisory committee?

4) Of all these groups, which do you feel stand out as especially influential and consequential for the formulation and implementation of local projects and policies toward the industry?

PART IV: THE CENTRAL GOVERNMENT

A.) 1. Do you have regular and routine contact with any of the regional offices of central government departments? Which ones?

a) How often?

weekly
 monthly
 every few months

b) What form does that contact take?

formal meetings: specify _____
 informal settings such as lunch; specify _____
 phone contacts
 social events
 letters/correspondence

c) What percentage of that time concerns issues of importance to the textile industry? _____ %

2. Has the central government been generally supportive of local initiatives toward the industry? _____

3. Is your organization active in the national policy process on issues of concern to the textile and clothing industry? if yes, how?

PART V: EUROPE

A. I will give you a list of European programs and initiatives. Could you please tell me if you participated in any of these programmes or programme bids, how you participated, who asked you to participate, and if you asked any other organization to participate.

1. REMTEX _____
2. RETEX _____
3. COMETT _____
4. BRITE _____
5. East Midlands Regional Operational Programme (EMROP) _____

_____ 6. NOW _____

_____ 7. LEDA (Local Economic Development Action) _____

_____ 8. Business and Innovation Centre (BIC) _____

_____ 9. European Information Centre _____

_____ 10. EUROPARTENARIAT _____

_____ 11. EUROFORM _____

_____ 12. RECHAR _____

_____ 13. PERIFERA _____

_____ 14. Other Structural Fund supported programs
(ESF,ERDF), specify _____

_____ 15. Other, specify _____

B) 1. Do you have any other links in Europe?

- _____ 1. Business/Commercial
- _____ 2. Associational networks
- _____ 3. Social
- _____ 4. Brussels Office
- _____ 5. Other, specify _____

2. Have you used these links to support Nottingham/
Nottinghamshire's attempts to win EC funding? How?

3. How important are European Links? What advantages do they bring? Are they becoming more important?

PART VI: CONCLUSIONS

A) What have been the overall effects of local initiatives toward the industry? To what degree do they meet local needs? _____

B) What have been the major obstacles? _____

C) What still needs to be done? _____

Address:

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Department of Government
LOCAL INDUSTRIAL POLICY STUDY
Interview Schedule
Public Authorities

Interview No.

Objective: I am interested in studying the role partnerships play in the process by which local industrial policy is made and implemented. You and your organization have been identified as significant actors in this process. I would like to talk with you about local policy toward the textile and clothing industry and the role you have taken in its development. Since interviews are being carried out in two countries with a variety of different organizations, I will follow an interview schedule to guarantee I cover all topics in a quick and efficient manner.

PART I: GOALS, PURPOSES, AND INTERESTS

A. I would like to start by asking you a few general questions about your Committee/Department?.

1. How would you describe the main activities and functions of your Department/Committee?

- 2. How many people does your department employ?**

3. Taking into account all the economic development initiatives you pursue, what percentage of your activity is devoted to the textile sector? _____ %

4. Why did you choose to assist, in particular, the textile and clothing industry? What goals do you seek to achieve?

5. What type of opposition do you face in the pursuance of this development strategy?

PART II. ASSOCIATIONS AND ORGANIZATIONS

A) I am going to give you a list of all associations and organizations that have had some involvement in initiatives toward the textile industry. For each organization, could you tell me which ones you regularly have contact with, consult with both generally and specifically toward the sector, and were involved in the the main programs toward the textile industry and why were they chosen? (City: Lace Market Strategy, original fashion centre, training and education initiatives, County: Work and Technology program, training and education initiatives, Enterprising Nottinghamshire)

Business Associations

_____ 1. Lace Market Manufacturers Associations _____

_____ 2. Knitting Industries Federation _____

3. CBI _____

4. Nottinghamshire Chamber of Commerce and Industry _____

5. Lace Market Retailers _____

6. Business in the Community _____

7. Other, specify _____

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____ 22. Other, specify _____

Public/Private Organizations

____ 23. Lace Market Development Corporation _____

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____ 26. Nottinghamshire Business Venture _____

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_____ 28. Nottingham Task Force _____

_____ 29. British Coal Enterprise _____

_____ 30. Other, specify _____

Private Sector

_____ 31. Individual Textile and Clothing Businesses,
specify, _____

_____ 32. Property Developers, specify _____

_____ 33. Consultants, specify _____

_____ 34. Banks, specify _____

_____ 35. Other, specify _____

Voluntary Sector

_____ 36. St. Ann's Training Workshop _____

_____ 37. Nottingham Textile Society _____

_____ 38. Other, specify _____

Other

_____ 39. Specify _____

2) Are you or any one on the Council a member or on the
board of Directors or Advisory Committee of any of
these associations? Which ones?

- 3) Of all these groups, which do you feel stand out as especially influential and consequential for the formulation and implementation of local projects and policies toward the industry? _____
-

PART III. INTERGOVERNMENTAL RELATIONS

A.) 1. Do you have regular and routine contact with any of the regional offices of central government departments? Which ones?

a) How often?

_____ weekly
_____ monthly
_____ every few months

b) What form does that contact take?

_____ formal meetings: specify _____
_____ informal settings such as lunch; specify _____
_____ phone contacts
_____ social events
_____ letters/correspondence

c) What percentage of that time concerns issues of importance to the textile industry? _____ %

2. Has the central government been generally supportive of local initiatives toward the industry? _____

3. The central government provides many funds for local initiatives. What effect does this have on policy choices?

B) How would you assess your relationship with the other Council, both generally and in this particular policy field?

2. With which departments/Committees in the other Council do you have regular and routine contact? _____

a) How often?

_____ weekly
_____ monthly
_____ every few months

b) What form does that contact take?

_____ formal meetings: specify _____
_____ informal settings such as lunch
_____ phone contacts
_____ social events
_____ letters/correspondence

3. Taking into account all the contacts with the other Council, what percentage of the total time do you meet with councillors? _____ %
with officers? _____ %

PART III: EUROPE

A. I will give you a list of European programs and initiatives.

1. From which of these initiatives have you received financial support? Which did you bid for unsuccessfully?

2. For each policy, could you tell me what organizations supported your bid or participated in the policy implementation, how they participated (managerial, financial or information/advice), how their participation was gained, and why were these groups chosen?

- _____ 1. REMTEX _____
- _____ 2. RETEX _____
- _____ 3. COMETT _____
- _____ 4. BRITE _____
- _____ 5. East Midlands Regional Operational Programme (EMROP) _____
- _____ 6. NOW _____
- _____ 7. LEDA (Local Economic Development Action) _____

8. Business and Innovation Centre (BIC) _____
9. European Information Centre _____
10. EUROPARTENARIAT _____
11. EUROFORM _____
12. RECHAR _____
13. PERIFERA _____
14. Other Structural Fund supported programs (ESF,ERDF), specify _____
15. Other, specify _____

3. Have any of these organizations used there independent European links to support your attempts to win EC funding? How?

4. Which organizations were asked to participate in the setting up a Brussels Office?

5. How important are European Links? What advantages do they bring? Are they becoming more important?

PART VI: CONCLUSIONS

A) What have been the overall effects of local initiatives toward the industry? To what degree do they meet local needs? _____

B) What have been the major obstacles? _____

C) What still needs to be done? _____

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