Chapter 22

State and Governance

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No survey of economic geography would be complete without a consideration of the state. States shape economic landscapes. They seek to regulate the flows of goods, money, energy, people, and information that produce economic geographies. They are major economic actors in their own right, employing large workforces, producing and consuming goods and services, and marshaling large financial and other economic resources in pursuit of state strategies. They play an important role in the production of economic space from state-sponsored local economic development initiatives to efforts to define and promote "national economies," and from the construction of multinational economic territories to dealing with the destabilizing implications of globalization. At the same time, states are, in turn, deeply affected by changing economic geographies. They depend for their resources on the economic prosperity of their territories, and are thus vulnerable to spatially differentiated processes of investment and disinvestment over which they usually have (at best) limited influence. Their ability to govern, and especially their ability to govern democratically, is affected by their legitimacy, which in turn is tied to their fragile attempts to deliver economic success and social welfare. Each of these is affected by economic geography: the spatial unevenness of economic growth and decline produces regions with severe social problems that tax the ingenuity of policymakers, while geographically concentrated growth sectors, such as financial services in the City of London or micro-electronics in California, are held up as models for state policy to promote elsewhere.

To examine the relationships between the state, governance, and economic geography, this chapter is divided into two main sections. The first defines state and governance and considers how they are related to economic processes. The longer second section then applies these ideas to the field of economic geography at a variety of spatial scales.

Understanding the State and Governance

Definitions

Despite its clear importance, the state is difficult to define with precision. Conventional definitions commonly emphasize the following elements. First, the state is a set of public institutions: government ministries, public services, military and police forces, legal systems, and so on. Second, the state is territorial: modern states cannot overlap geographically; they have fixed and clear (though often disputed) borders and, in principle, they exercise power evenly across their territories. Third, the state controls the legitimate means of violence, including the armed forces and imprisonment. This composite definition is an adequate starting point, but there are some problems with it. The first and second parts are especially relevant to economic geography, and thus merit brief elaboration here.

The institutional aspect of the definition seems unremarkable, and yet there can be difficulties in distinguishing clearly between state and non-state institutions. How should we categorize a private utility company, such as a rail network or a water-supply company, that attracts a government subsidy funded from taxation, is subject to state regulation, and has a statutory obligation to provide particular products in particular ways? Or what do we make of a cleaning company that was formed through the privatization of a public service by way of a management buyout, and that generates its entire turnover by selling cleaning services to the same public sector organization of which it was previously a part? In urban economic regeneration, a welter of public–private partnerships have sprung up in many countries to undertake projects aimed at revitalizing rundown neighborhoods, using both public and private resources. Are such partnerships and their projects inside or outside the institutional architecture of the state? It seems that many institutions cannot be neatly labeled as state or non-state. This means that there are difficulties in trying to define the state partly as a particular set of institutions. It also suggests that the state should not be seen as something separate from society, a point I shall return to below.

The territorial aspect of the state is also more complex than appears at first sight. Although territoriality is more important in modern states than earlier ones (Giddens, 1985; Mann, 1988) the territorial integrity of the state is never perfect. States do not, in practice, exercise power entirely evenly across territory, nor does their power cease at their frontiers: state power can be, and often is, extended beyond state borders. Each state claims to be sovereign over its territory (that is, to be the ultimate source of authority). However, true territorial sovereignty is rarely achieved. Moreover, some writers have suggested that it is now being comprehensively undermined in favor of a more complex multi-layered system of political authority in which states are just one among a number of structures with influence over "their" space (Anderson, 1996; Jessop, 1994).

In both institutional and territorial terms, therefore, the state is not as coherent as the conventional definition suggests. According to Corrigan and Sayer the state is not a concrete object (consisting of "institutions plus territory") at all, but is really an *idea*. Quoting from the work of Abrams (1977) they argue that:

> "the state" is in an important sense an illusion. Of course, institutions of government are real enough. But "the state" is in large part an ideological construct, a fiction: [. . .] an ideological artefact attributing unity, structure and independence to the disunited, structureless and dependent workings of the practice of government. (Corrigan and Sayer, 1985, pp. 7–8)

In other words the conventional story of the state – that it is unified, coherent, and territorially sovereign – is a story told by the state itself, and thus not to be taken on trust. Instead the state should be understood as a political project in a continual process of formation, deformation, and reformation. States are complex and heterogeneous and are never fully coherent. Mann (1993) suggests that states are "polymorphous;" they are liable to "crystallize" in a range of different ways, depending on the issue or constituency involved, while Resnick (1990) adopts the metaphor of Proteus, the ever-changing figure from Greek mythology, to convey the perpetual restless transformation of the state.

Finally, states are social arenas. As well as the formal political, legal, and economic structures and processes that make up the architecture of the state, the state consists of myriad informal social processes and networks of social relations. Such networks involve not only elected officials, senior bureaucrats, and social and economic elites, but also the thousands of middle- and low-ranking state employees on whose activities the state depends.

Networks also spread beyond the state and contribute to the blurring of the boundaries of the state noted above. This seems to be an increasing feature of political life, and social scientists have sought new concepts and vocabularies to describe and understand it. One of the most popular is "governance." Governance is a term with several meanings in social science. It is sometimes used loosely to refer to the process of governing in general, whatever form it takes. More specifically it can refer to the involvement of non-state actors (such as firms and voluntary organizations) alongside the state in the process of governing. Within economic geography, however, it is most commonly used to refer to a particular type of relationship between state and non-state organizations. In contrast to hierarchical forms of coordination that depend on top-down decisionmaking, and to market forms of coordination that work through individualized contracts, governance involves coordination through network and partnership. According to Rhodes, governance involves "self-organizing, interorganizational networks" (Rhodes, 1997, p. 53). Rhodes argues that governance is growing in importance relative to conventional government, and identifies four key features of this shift:

1. Interdependence between organizations. Governance is broader than government, covering non-state actors. Changing the boundaries of the state meant the boundaries between public, private and voluntary sectors became more shifting and opaque.
2. Continuing interactions between network members, caused by the need to exchange resources and negotiate shared purposes.
3. Game-like interactions, rooted in trust and regulated by rules of the game, negotiated and agreed by network participants.
4. A significant degree of autonomy from the state. Networks are not accountable to the state; they are self-organizing. Although the state does not occupy a sovereign position, it can indirectly and imperfectly steer networks (Rhodes, 1997, p. 53).

The growth of governance in Rhodes' sense means that both the form and the outcome of the relationships between state activities and economic geography are changing.

State and economy

The social world is not neatly segmented into "economy," "state," and "civil society." That does not mean that society is a unitary whole, with no internal structures or differences. But it does make it impossible to understand "civil society" and "the economy" as spheres of human activity that are separate from the state. State power permeates almost all aspects of social and economic life (and by extension social and economic geography). That is not to say that social and economic life are state-controlled, but they are affected by the state in remarkably deep-seated and enduring ways. Despite the rhetoric of right-wing politicians during the 1980s and 1990s, the state has not been "rolled back" – if that means that more and more social and economic relations are beyond the scope of state power. Indeed, the exercise of state power seems to be becoming more intense with the passage of time, not less (but not necessarily more effective). This can be seen in a simple way in the fact that as time goes on states develop and implement policy on an ever-widening range of issues. New legislation is added to the statute books much more quickly than old legislation is repealed. Each year, new elements of social and economic life become objects of state surveillance, regulation, intervention, and manipulation. Once an issue or a problem is visible to the state, and is taken on as an object of governmental authority, there is no going back.

The widely held (but mistaken) common-sense assumption that the social world is composed of distinct "spheres" (the state and the economy, or governments and markets) is reflected in the separation of political from economic geography. Until recently the state was largely neglected in the writings of mainstream economic geographers. With some honorable exceptions, economic geographers got on with studying the locational decisions of firms, the geographically uneven development of markets, and the spatial flows of goods, finance, and labor, leaving the investigation of the state to the (less numerous) political geographers. Fortunately this lack of attention to the state within economic geography is now being remedied (cf. Knox and Agnew, 1998; Martin and Sunley, 1997; O'Neill, 1997).

The separation of spheres assumption is not just of academic interest. It has important policy implications. This is the assumption that allows government ministers, journalists, and economists to talk of state "intervention" in the economy, as if economic relations are independent of the state except in the specific and noteworthy case when the government "does something" to the economy, for reasons that are typically dismissed by orthodox economists as "meddling," "interference," or "politically motivated."

The geographer Phillip O'Neill explicitly rejects the "separation of spheres" assumption. He challenges

> ... the politically charged discourse that markets are capable of a separate, private existence beyond the actions of the state's apparatus. Rather, a *qualitative* view of the state is preferred. In this view, the state is seen to play an indispensable role in the creation, governance and conduct of markets, including at the international scale. Consequently, arguments about the *extent* of state intervention are seen as being feeble. Because the state is always involved in the operation of markets, the salient debate should be about the nature, purpose and

consequences of the *form* of state action, rather than about questions of magnitude of intervention. (O'Neill, 1997, p. 291)

O'Neill's contribution is particularly important as it emphasizes that the state plays a continuous and major role in the constitution of economies. Thus the conventional focus on "how much" the state should intervene is misplaced. This "quantitative" view of the state should give way to a "qualitative" view that focuses on the nature of the state's role in the economy and, as we shall see in the next section, its geography.

States, Governance, and Economic Geography

The qualitative state and economic geography

O'Neill's emphasis on the qualitative role of the state is very useful for economic geography. Drawing on the work of Polanyi (1957), Cerny (1990), and especially Block (1994), O'Neill sets out four tenets concerning the role of the state:

First, *economy* is necessarily a combination of three events: markets, state action and state regulation. A corollary of this constitution is that there is an infinite number of ways in which an economy can be organized. Second, although economic efficiency is dependent on markets, markets are state-constrained and state-regulated and thereby incapable of operating in a *laissez-faire* environment. Third, neither capital nor the state is capable of achieving its goals simultaneously nor independently. Finally, it should be recognized that any coherence that exists about the idea of *economy* derives essentially from our cultural beliefs, which (in Anglo cultures at least) have led to constructions of economy being overlain with the dichotomy of *planned versus market*, which, in turn, has had the effect of denying the existence of multiple forms of economy. (1997, p. 294)

These tenets have important implications for economic geography. The nature of the combination between markets, state action, and state regulation varies geographically (most notably from state to state). Markets also operate in spatially uneven ways and this geography influences and is influenced by state regulation. Cultural beliefs about the economy and thus about state–economy relations vary significantly from place to place. The importance of the state to the economy, and by implication to economic geography, is summarized by O'Neill in a table (reproduced here as table 22.1) showing the great range of roles that the state undertakes in a modern economy.

Several of the roles listed in table 22.1 are self-evidently geographical, such as land-use planning and regulation, urban and regional development, and the management of territorial boundaries. However, almost all of them have a geography, or are influenced by geography: "economy" and "geography" are mutually constituting. Even such non-spatial state functions as "social wage provision" or "monetary policy" cannot be fully understood without considering their relationship to space and place. Thus the social wage refers to the provision of goods or services by the state to supplement wages obtained in the labor market. It can take many forms, but one of the most important is state subsidization of the housing market, either through the direct provision of public or social housing at below market rents, or

Table 22.1 Roles of the qualitative state in a modern economy

A Maintenance of a regime of property rights
- i. Maintenance of private property rights
- ii. Recognition of institutional property rights
- iii. Basic rules for the ownership and use of productive assets
- iv. Basic rules for the exploitation of natural resources
- v. Rules for the transfer of property rights (between individuals, households, institutions, and generations)

B Management of territorial boundaries
- i. Provision of military force
- ii. Economic protection through manipulation of:
  - money flows
  - goods flows
  - services flows
  - labor flows
  - flows of intangibles
- iii. Quarantine protection

C Legal frameworks to maximize economic co-operation
- i. Establishment of partnerships and corporations
- ii. Protection of intellectual property rights
- iii. The governance of recurring economic relations between:
  - family members
  - employers and workers
  - landlords and tenants
  - buyers and sellers

D Projects to ensure social co-operation
- i. Maintenance of law and order
- ii. Undertake national image-making processes
- iii. Other coercive strategies

E Provision of basic infrastructure
- i. Provision or organization of:
  - transportation and communications systems
  - energy and water supply
  - waste disposal systems
- ii. Assembly and conduct of communications media
- iii. Assembly and dissemination of public information
- iv. Land-use planning and regulation

F Creation and governance of financial markets
- i. Rules for the establishment and operation of financial institutions
- ii. Designation of the means of economic payment
- iii. Rules for the use of credit
- iv. Maintenance of the lender of last resort

G Creation and governance of product markets
- i. Regulation of the market power of firms
- ii. The selection and regulation of natural monopolies
- iii. The promotion and maintenance of strategic industries
- iv. The provision of public goods
- v. The provision of goods unlikely to be supplied fairly

H Production and reproduction of labor
- i. Demographic planning and governance
- ii. Provision of universal education and training
- iii. Governance of workplace conditions
- iv. Governance of returns for work
- v. Social wage provision
- vi. Supply and governance of childcare
- vii. Provision of governance of retirement incomes

I Control of macroeconomic trends
- i. Fiscal policy
- ii. Monetary policy
- iii. External viability

J Other legitimation activities
- i. Elimination of poverty
- ii. Maintenance of public health
- iii. Citizenship rights
- iv. Income and wealth redistribution
- v. Urban and regional development
- vi. Cultural development
- vii. Socialization
- viii. Enhancement of the environment

Source: O'Neill (1997)

through tax relief on the construction and/or purchase of private housing. Since housing markets are subject to enormous inter-regional variations the social wage is in practice geographically differentiated. To take a simple empirical example, there is currently an over-supply of public housing in north-east England and a dramatic under-supply (relative to demand and need) in south-east England. It is thus easier to acquire that element of the social wage in the north-east than in the south-east. Seen another way, public housing tenants in the south-east receive a higher social wage (measured in relation to market prices) than do tenants of similar properties in the north-east.

The same regional geography illustrates the significance of geography to monetary policy. Central banks establish base interest rates that apply across the whole of the relevant territory. However, because local and regional economies typically diverge markedly in terms of sectoral structures, factor prices, and external orientation, a unitary interest rate policy can have spatially divergent impacts. In the UK, for example, manufacturing sectors in old industrial regions such as the north-east were facing recession during the late 1990s while the economy of the south-east, dominated by producer services, was at risk of overheating. This situation led to calls for interest rate cuts on the part of the northern manufacturing interests, who found that the high value of sterling made their exports uncompetitive. High UK interest rates tend to raise the value of sterling relative to other currencies because currency investors buy more pounds to take advantage of the increased interest income available. In a now infamous comment on this situation, the Governor of the Bank of England, Eddie George, declared that unemployment in the north of England was a price that had to be paid to stave off inflation in the south-east. While the interest rate set by the bank is geographically uniform, its effects are not, and neither are the politics that surround it.

Mapping state–economy relations

The examples in the previous section reveal the importance of the state in understanding the geography of economic processes within national borders. There are also major geographical variations between countries arising from differences in the nature of the relations between the state and the market in each. This might seem obvious, but it is worth emphasizing because a number of prominent writers, notably Kenichi Ohmae (1995), have claimed that the nation-state is becoming increasingly irrelevant to economic activity as a result of globalization. By contrast, others such as Hutton (1995) stress the enduring impact of states on the pattern of economic development around the world, and the great importance of variations in state regimes for economic development and prosperity. Hutton focuses on four different systems, summarized in table 22.2. They are American capitalism, Japanese capitalism, the European social market, and British capitalism (Hutton, 1995, pp. 257–84).

Although there are many similarities between the four systems (they all involve wealthy, industrialized, capitalist economies based on production for private profit) Hutton argues that “the similarities disguise vast differences between the social and economic purpose of apparently similar institutions, so that each capitalist structure ends up with very different specific capacities and cultures which are very hard to change” (Hutton, 1995, pp. 257–8).

Table 22.2 Four types of capitalism

Characteristic	American capitalism	Japanese capitalism	European social market	British capitalism
Basic principle				
Dominant factor of production	Capital	Labor	Partnership	Capital
"Public" tradition	Medium	High	High	Low
Centralization	Low	Medium	Medium	High
Reliance on price-mediated markets	High	Low	Medium	High
Supply relations	Arm's-length, price-driven	Close, enduring	Bureaucracy planned	Arm's-length, price-driven
Industrial groups	Partial, defense, etc.	Very high	High	Low
Extent privatized	High	High	Medium	High
Financial system				
Market structure	Anonymous, securitized	Personal, committed	Bureaucracy, committed	Uncommitted, marketized
Banking system	Advanced, marketized, regional	Traditional, regulated, concentrated	Traditional, regulated, regional	Advanced, marketized, centralized
Stock market	V. important	Unimportant	Unimportant	V. important
Required returns	High	Low	Medium	High
Labor market				
Job security	Low	High	High	Low
Labor mobility	High	Low	Medium	Medium
Labour/management	Adversarial	Co-operative	Co-operative	Adversarial
Pay differential	Large	Small	Medium	Large
Turnover	High	Low	Medium	Medium
Skills	Medium	High	High	Poor
Union structure	Sector-based	Firm-based	Industry-wide	Craft
Strength	Low	Low	High	Low
The firm				
Main goal	Profits	Market share, stable jobs	Market share, fulfilment	Profits
Role of top manager	Boss-king, autocratic	Consensus	Consensus	Boss-king, hierarchy
Social overheads	Low	Low	High	Medium, down
Welfare system				
Basic principle	Liberal	Corporatist	Corporatist, social democracy	Mixed
Universal transfers	Low	Medium	High	Medium, down
Means-testing	High	Medium	Low	Medium, up
Degree education is tiered by class	High	Medium	Medium	High
Private welfare	High	Medium	Low	Medium, up
Government policies				
Role of government	Limited, adversarial	Extensive, co-operative	Encompassing	Strong, adversarial
Openness to trade	Quite open	Least open	Quite open	Open
Industrial policy	Little	A lot	A lot	Non-existent
Top income tax	Low	Low	High	Medium

Source: Hutton (1995)

In each of the systems in table 22.2 the state cannot be seen in isolation from other aspects of the model. Like O'Neill, Hutton emphasizes the qualitative relationships between the state and all the other elements. Of the four, the US model appears to give the most limited role to the state. It is a highly flexible and highly market-based system with limited regulation of the labor market and restricted welfare benefits. The corporate sector is highly competitive with an emphasis on short-term profitability. At the same time, Hutton points out, the US "has retained important institutional shelters against the full blast of competition and these have become ways of expressing co-operative common purpose" (1995, p. 259). Many of them stem from the New Deal of the 1930s. According to Hutton, both federal and state governments have key roles here with housing, banking, and research and development sectors all benefiting from state involvement. Even the intensely competitive aspect of the private sector is underwritten by strong anti-monopoly controls put in place by the state.

The second model, that of the European social market, involves a partnership between capital and labor, a financial system that is less oriented to the market than in the USA and more committed to the enterprises in which it invests, a strong and inclusive welfare system, and high degree of formalized power sharing in the political system. This produces, argues Hutton, co-operation, high productivity, and investment. However, because of the high degree of regulation, restructuring is more difficult, though not impossible. This model is apparent in Scandinavia, Germany, and a number of other continental European countries within the European Union.

The third model, that of East Asian capitalism, is typical of Japan and the East Asian "tigers," and increasingly of China. In these systems there is intense competition, but also significant cooperation. There is a close relationship between the key economic institutions such as firms, banks, and unions. Hutton identifies the state as "the architect of these institutional relationships; it seeks to build consensus and then guides firms and the financial system in the direction established by the consensus" (1995, p. 270). Until the Asian economic crisis of the late 1990s, this system saw dramatic rates of economic growth, as geographers Knox and Agnew describe:

> Adding government savings to deposits in nationalized banks, the South Korean government controlled two-thirds of South Korea's investment resources during the country's period of most rapid growth in the late 1970s. This power was used to guide investment in chosen directions through differential interest rates and easy credit terms. Korean export expansion, the main method of economic growth, was itself built on an economic base that was stringently protected from foreign imports. Economic growth was orchestrated by activist governments. (Knox and Agnew, 1998, p. 93)

Finally, there is British capitalism. Hutton regards this as the weakest of the four models, and again he is clear that the state plays a key role, although in this case a negative one. As Hutton puts it, "the financial system demands the same high returns from companies, with the same lack of commitment, as in the US; but there is not even the saving grace of statutory regulation and strong regional or state banks to moderate the consequences of such pressure" (1995, p. 281). Although Britain's welfare system is less all-embracing than the social-market model, it does provide a degree of universal coverage not found in the USA. For Hutton, this is again the worst of both worlds, with tax rates higher than the USA but without the levels of social solidarity that compensate for this in the European model. Britain lacks "the tradition of public spirit, common interest and national purpose which variously imbues social market Europe, the US and East Asian capitalism" and the parliamentary system fails to act as a "source of integration and national leadership" (1995, p. 284).

Although his account is not couched in the vocabulary of economic geography, Hutton effectively provides a map of state–economy relations around the industrialized world, and thus a useful approach to understanding the role of the state in the production and transformation of economic geography. The different structures of the four systems involve more than just state institutions and state policies, of course, but, for Hutton, the state is a central determinant of economic performance (1995, p. 20).

With the partial exception of Knox and Agnew, most of the writers mentioned so far derive their accounts of the restructuring of the state explicitly or implicitly from the industrialized Western countries, and particularly from Western Europe and North America. These accounts are, therefore, to a greater or lesser extent, ethnocentric, with relatively little attention paid to the role of the state in Asia, Africa, and Latin America. If our map of state–economy relations is not to be woefully incomplete we must also consider the situation in middle- and low-income countries.

If it is difficult to generalize about patterns of state formation and restructuring within the capitalist core, it is even more problematic to lump together all the so-called "less-developed" countries. Stereotypes abound: inefficiency, corruption, bureaucracy, militarization, and authoritarianism. While examples of each of these can be found, they are hardly unique to the poorer parts of the world, and it would be inaccurate to establish a model of the state in less-developed countries on the basis of them (Bayart, 1993).

Yet some common trends can be observed, related to: the impact of colonialism in many (but not all) cases; the widespread adoption of the discourse of "development" (Escobar, 1995) and associated state strategies; and the sharp and enduring polarization of the global economy, dominated as it is by a small minority of exceptionally and unusually wealthy countries (Amin, 1991). In particular, state legitimacy becomes tied to the ability to promote economic growth, but limited resources and the relative lack of infrastructural power constrains the capacity of the state to deliver. This undermines the legitimacy of the state, which in turn leads to political unrest and, all too often, authoritarian reaction and/or military dictatorship. For example, in the case of sub-Saharan Africa the independent states that emerged from the colonial period appeared to adopt markedly different approaches to economic development "ranging from Marxism-Leninism through African socialism (which emphasized the, supposedly, egalitarian communal values of 'traditional' African society) to an open espousal of free-market capitalism" (Wiseman, 1997, p. 275). In practice, however, Wiseman notes that most African states pursued remarkably similar strategies: "in almost all cases the key feature was the attempt to impose the state as the key player in economic development" (p. 276). In states advocating a capitalist path, this meant that aspiring entrepreneurs had to develop close links with state officials leading to what has been termed "crony capitalism" or clientelism. This limited the development of an independent capitalist class, with the ruling class being closely associated with the machinery of the state and marked by division, instability, and ethnic, religious, and regional differences. As Wiseman writes:

> With control of the state being regarded as vital for individual or group economic prosperity, and frequently for personal survival, the tolerance needed for the existence of legal and legitimate opposition, and of a vibrant and autonomous civil society, which are so fundamental for democracy, has been scarce. African political authoritarianism has had a negative effect on economic development. The model of the authoritarian developmental state, identified in such places as Taiwan, Singapore, Malaysia and South Korea as occupying a key role in promoting economic growth, is not replicated in Africa. (Wiseman, 1997, p. 277)

The 1980s and 1990s have seen significant shifts in state economic strategies in many countries. During the 1980s, international agencies such as the World Bank imposed neoliberal "structural adjustment programs" on many states in exchange for financial assistance. These programs involved cutbacks in government expenditure, reduction in welfare programs, the ending of state subsidies and the opening of domestic markets to international investment. Although strongly defended by their backers as painful but necessary phases of restructuring, their immediate impact was often to produce sharp decreases in living standards for already impoverished people. More recently, and to some extent in response to the excesses of structural adjustment, the same institutions have been sponsoring the shift from government to governance, by promoting the involvement of non-governmental organizations in the delivery of "development" policies.

The rise of the workfare state

Structural adjustment programs in poor countries were one symptom of a worldwide shift towards neoliberal economic strategies that occurred during the 1980s among public policy markets at all spatial scales, from the local to the international. Up to this point in the chapter, the emphasis has been on the ways in which economic processes and outcomes are geographically differentiated both within and between countries, and the importance of the state in accounting for such patterns. The growth of neoliberal policies, by contrast, represented something of a convergence in state economic strategies.

One of the most important targets of 1980s neoliberalism was the welfare state, which had grown up in a variety of different forms in all the advanced industrialized countries during the previous 50 years. The precise nature of state welfare provision varied from country to country but typically included social security payments for those without other sources of income (such as unemployed and retired people), health care, education, and housing. The welfare state was closely linked with economic strategies based on the ideas of the British economist J. M. Keynes. This leads state theorist Bob Jessop to identify the "Keynesian welfare national state (KWNS)" (Jessop, 1997c, p. 516), in which Keynesian demand management and state welfare provision underwrote capitalist accumulation within relatively integrated national economies. According to Jessop (1997a, p. 571; 1997c, p. 516), the Keynesian welfare national state is now giving way to the Schumpeterian workfare (post-national) regime (SWR). In earlier work Jessop (1993) used the term Schumpeterian workfare state: he now favors "regime" to emphasize the increased role of governance mechanisms (see above) to correct market and state failures.

The SWR is "Schumpeterian" after the theorist of economic innovation, Joseph Schumpeter. It emphasizes the re-orientation of policy away from demand management, towards supply-side activities supposed to encourage innovation in products, processes, and markets. These include deregulation, privatization, skills training, and support for entrepreneurial activity. The SWR involves "workfare," not in the narrow sense of 1930s-style food for work programs (though these could be an element in theory), but in the sense that labor-market strategies involve the subordination of social policy to the requirements of international economic competitiveness. Peck (2000) outlines the main components of this shift to workfarism (see table 22.3). In place of the needs-based approach of the welfare state, the workfare regime emphasizes the work ethic. It stresses individual responsibility and requires

Table 22.3 Welfare structures and workfare strategies

	Welfare structures	Workfare strategies
Ideological principles	Entitlement Aid distributed on basis of need	Reciprocity Enforcement of work and work values
Objectives/rationale	Reducing poverty through income transfers Responding to manifest social need	Tackling welfare dependency through promotion of work Maximizing labor market participation
Dominant discourse	Need and entitlement Social work/bureaucratic codes and norms	Work, personal responsibility and self/family-sufficiency Business/employment service codes and norms
Means	Passive income support	Active labor market integration
Labor-regulatory function	Exclusion from wage-labor Socially-sanctioned recipient groups defined on basis of ascribed/categorical characteristics	Inclusion into wage-labor Market-determined treatment groups defined on basis of job readiness
Subject/state	Welfare recipient *On* welfare	Job seeker Moving *through* workfare
Social relations	Determining entitlements of passive subjects	Interventionist case management of active subjects
Hierarchy	Centralized control Limited local autonomy in program design, entitlement and eligibility Management by input controls and sanctions	Centrally-orchestrated devolution Increasing local discretion over program design, entitlement and eligibility Management by output targets and incentives
Delivery	Bureaucratic; line management ethos Process and input orientation Standardized programs	Flexible; local market ethos Output and outcome orientation Variegated programs
Work/work program participation	Limited Voluntary	Extensive Mandatory; ethos of compulsion

Source: Peck (2000)

those seeking work to adopt a flexible approach. The state's role is limited to the provision of skills through education and training, and the organization of programs to encourage, or in some circumstances to coerce, individuals into the labor market.

Jessop identifies three trends in the nature of the state associated with the move from the KWNS to the SWR. First, statehood is being "denationalized" (hence "Schumpeterian workfare *post-national* regime"):

> This structural trend is reflected empirically in the "hollowing out" of the national state apparatus with old and new state capacities being reorganized territorially and functionally on subnational, national, supranational and translocal levels. There is the continuing movement of state power upwards, downwards and sideways as attempts are made by state managers on different territorial scales to enhance their respective operational autonomies and strategic capacities [. . .] However, countering this trend is the survival of the national state as the principal factor of social cohesion in societies and its associated role in promoting social redistribution. (Jessop, 1997a, pp. 573–4)

Second, the political system is being "destatized." In other words the formulation and implementation of public policy and collective political strategies increasingly involve "governance" in the sense defined earlier, with non-state actors playing an increasing role:

> There is a movement from the central role of official state apparatus in securing state-sponsored economic and social projects and political hegemony towards an emphasis on partnerships between governmental, para-governmental and non-governmental organizations in which the state apparatus is often only first among equals. (Jessop, 1997a, pp. 574–5)

Third, policy regimes are becoming internationalized. State action increasingly takes place in a much wider international context, and policy is influenced by a range of extraterritorial actors and institutions. This can be related to the focus on "international competitiveness" associated with the SWR, and he cites the worldwide shift to neoliberalism (see above) as the most obvious example (Jessop, 1997a, p. 575).

Local state and local governance

The rise of the Schumpeterian workfare regime and the associated shift from government to governance are particularly evident at the local scale. It is certainly at the local level that they have received most attention from economic geographers (see, for example, Goodwin and Painter, 1996; Jessop, 1997b; Peck and Tickell, 1995).

This does not mean, however, that the state is unimportant at the local level. On the contrary, state agencies are frequently central to the mobilization of the partnerships and networks on which governance depends. The term "local state" refers simply to any part or agency of the state that operates over part of the national territory with a degree of autonomy from the central state. It includes, but is not limited to, elected local governments. Local governance refers to collective policy and strategy formation at the local level involving a range of state, para-state, and non-state organizations.

The local state and local governance are important to economic geography because of the role they play in shaping the economic landscape. Local state institutions are significant economic actors in their areas. In some localities the local state is the largest employer, for example, and local authorities are major purchasers as well as facilitating and/or providing a wide range of local goods and services – from leisure facilities to education and from refuse disposal to public parks. In addition to this direct impact, local state institutions frequently pursue economic strategies with varying degrees of autonomy from the center. The constitutional position of local government varies widely from state to state, but the heightened intensity of international economic competition means that local authorities commonly use whatever power may be available to them to influence the economic fortunes of their localities. Typical strategies include: the attraction of inward investment using a variety of incentives; development assistance to local small and medium enterprises; infrastructure provision; land use planning; and training and education.

Each of these strategies can involve the mobilization of a range of actors in the locality, including public sector agencies, private firms, and non-government organizations; in a word, local governance. One important theoretical approach to understanding these relationships is provided by urban regime theory (Lauria, 1997). The concept of urban regime has gained significant prominence in the literature of urban studies and political science, especially in North America (Elkin, 1987; Fainstein and Fainstein, 1983; Lauria, 1994; Orr and Stoker, 1994; Stone, 1989, 1993). Recently it has been gaining popularity in relation to British urban politics (DiGaetano and Klemanski, 1993; Lawless, 1994), while Stoker and Mossberger (1994) have argued that it is possible to use it more widely, including in comparative studies (see also DiGaetano and Klemanski, 1993; Harding, 1994; Stoker, 1995).

Regime theory argues that successful governance almost always depends upon the availability and mobilization of resources and actors beyond those that are formally part of "government." Governing a locality, particularly in the United States where the institutions of elected urban government are relatively weak, relies on the ability to form governing coalitions that bring together the formal agencies of government with interest groups from the wider society. Foremost among these, in the American context at least, are business interests. However, Stone (1989) is at pains to point out that, although the prominence of the business connection is hardly surprising, a regime is not inherently a coalition with business (or with any particular interest come to that).

On the other hand, business interests are central in practice because regime success is evaluated (at least in part) by economic prosperity, and because (in the United States, but not, for example, in Britain) local governments are heavily dependent on local businesses for tax revenues. Outside the United States, other interests may be more central to the coalition. In many European cities, for example, appointed local state officials, technocratic managers, and professionals play a central role. Furthermore, in many cases the most important business interests are not locally embedded to the extent evident in many of the examples discussed in the literature on the USA.

An urban regime may thus be defined as a coalition of interests at the urban scale, including, but not limited to, elected local government officials, which coordinates resources and thus generates "governing capacity." Regimes can pursue a range of different strategies and this has led some writers to note a range of regime types (pro-growth, caretaker, conservationist, etc.). At the risk of some oversimplification, however, we may identify what Harvey (1989) sees as a broad shift from managerial to entrepreneurial strategies of urban governance (see also Hall and Hubbard, 1998). This means a change from running the everyday functions of a locality such as transportation or housing provision (managerialism), to developing active risk-taking strategies to promote the economic fortunes of the locality in an increasingly competitive world (entrepreneurialism).

Harvey argues that there are four options for urban entrepreneurialism. First, "competition within the international division of labor means the creation and exploitation of particular advantages for the production of goods and services" (p. 8), by, for example, seeking to attract inward investment. Second, "the urban region can also seek to improve its competitive position with respect to the spatial division of consumption" (p. 9), by promoting the development of both routine consumption activities and more spectacular festivals. Third, "urban entrepreneurialism has also been strongly coloured by a fierce struggle over the acquisition of key control and command functions in high finance, government, or information gathering and processing" (p. 9). This might, for example, involve attempts to attract government offices undergoing relocation. Finally, "competitive edge with respect to redistributions of surpluses through central governments is still of tremendous importance" (p. 10). Here, Harvey means not only direct government grants, but also lucrative government contracts in, for example, the defense sector. Harvey goes on to suggest that the macroeconomic implications of this kind of inter-urban competition are often actually negative in the short to medium term. Nevertheless he does point to the more progressive possibilities inherent in the generation of renewed collective development strategies at the local scale. Realizing these possibilities depends in part on the construction of appropriately progressive urban regimes.

At present, however, the majority of urban regimes are aimed at promoting local economic growth by prioritizing the interests of businesses above those of other sectors of the community. An example will clarify how this can work in practice. The transition from local government to local governance in the UK has been closely associated with the emergence of new forms of informal power networks and local elites. In addition to the formal partnership organizations that are characteristic of local governance, we are seeing the development of close-knit elite networks, typically dominated by business interests. This is consistent with the idea of the transition from a welfare state to a workfare regime, insofar as the latter encompasses a renewed emphasis on the role of capital and entrepreneurialism within systems of political authority. At the local scale, these business-dominated networks can be thought of as one kind of urban regime. Indeed the original concept of urban regime was developed precisely to describe the relationship between business interests and urban politics (Stone, 1989).

The work of Tickell and Peck on Manchester provides a good example of the transition from local government to local governance and the associated growth in the business-dominance of urban politics (see Peck and Tickell, 1995; Tickell and Peck, 1996). Although Tickell and Peck do not use urban regime terminology, their work does reveal the emergence of the kind of local networks of political actors and interests to which the concept of urban regime refers. In addition to the agencies of elected local government, there are two kinds of formal organizations contributing to the pattern of urban governance in the UK, and evident in the Manchester case. The first are unelected "quangos" (quasi-non-government organizations: public bodies whose members are appointed, usually by central government). They include Urban Development Corporations (of which there were two in the Manchester area, both of which have now come to the end of their ten-year life-spans), training and enterprise councils, regional and district health authorities, and housing action trusts. Secondly,

> ... alongside and deeply networked with this burgeoning system of quangos is a range of other business-led and "partnership" bodies, such as ... the Business Leadership Teams (BLTs) and Business in the Community, which are with the active support of government ministers forcefully presenting the "voice" and "vision" of business as being the legitimate interest in local policy formulation. (Tickell and Peck, 1996, pp. 595–96)

These formal organizations are cross-cut by informal networks of businessmen (and Tickell and Peck emphasize that they mostly *are* men) that often involve multiple memberships of quangos and partnership bodies for specific individuals in the local business community. Politically conservative and male-dominated, these networks represent a significant shift in the power structure of local policymaking from the 1970s and 1980s, when the elected local state in Manchester attempted to implement a range of left-wing policies in the areas of economic development, equal opportunities, and nuclear disarmament. For example, the North West Business Leadership Team, which covers Manchester, consists of thirty self-appointed businessmen and, "has claimed the right to speak for the region, playing a central role in the formulation of the regional economic strategy, the framework for the dispersal of European Union structural funds over the period 1994–6" (Tickell and Peck, 1996, p. 598).

The implication of the shift in Manchester from local government to local governance, and the consolidation of an entrepreneurial and business-dominated urban regime, is that the impact of state and governance at the local level on economic geography is one that is increasingly tied to the interests of men, capital, and private firms, at the expense of women, labor, and the public sector. While the details of the Manchester case are unique, similar trends are apparent in many other UK and US cities (Cox, 1997; Horan, 1997). Indeed the importance of "entrepreneurial cities" is growing worldwide (Hall and Hubbard, 1998).

Conclusion

I have shown in this chapter how economic relations within and between countries are influenced by the state and governance. In contrast to the view that the state's importance is in terminal decline in the contemporary world, I have emphasized that it continues to have an intense involvement in the production and transformation of economic processes and the working out of economic geographies. That being said, and as the work of Jessop showed, governance is becoming less statist, with the growing involvement of a range of non-governmental organizations. Moreover, the emergence of transnational governance regimes, such as the EU, does challenge the centrality of the *nation*-state in the field of economic policymaking and regulation. At the same time, local urban regimes make strenuous efforts to improve the economic status of their localities. However, while the state is losing its taken-for-granted status as the pre-eminent political authority, and a more complex picture is emerging in which the state is one among a number of participants in governance, this hardly heralds its outright demise. States will continue to shape and be shaped by the economic landscape at a variety of spatial scales for many years to come.

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