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*Huib Ernste\**

## **FLEXIBLE SPECIALISATION AND REGIONAL POLICY<sup>1</sup>**

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In regional policy since the beginning of the 1980s a strong surge for new concepts, new approaches and alternative views has been growing. One of them is the concept of "flexible specialisation", which is based on decentralised networks of specialised, highly innovative and flexible independent firms. The concept was introduced to capture the main characteristics of new corporate strategies. The case study on Swiss federal regional policy clarifies the specific relationship between flexible specialisation and specific forms of government involvement in regional development.

**Key words:** flexible specialisation, communicative rationality, theory of communicative action, Swiss federal regional policy, watch industry

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\* Department of Geography, Swiss Federal Institute of Technology (ETH), Winterthurerstrasse 190, CH-8057 Zurich, Switzerland

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## INTRODUCTION

The 1980s have often been designated as a period of crisis and latest developments make us think of the 1990s as "the end of history". These periods of fundamental changes are paralleled by a severe crisis of theoretic explanation of what is going on in our world. Even the theoretical approaches of the more recent past - such as core-periphery, product cycle theory, spatial/international division of labour - at some points appear to be too rigid to explain contemporary regional economic dynamism in the United States and in Western Europe (Scott & Storper, 1992). This is even more true for the Third World (Frank and Fuentess/Frank 1990, Schmitz 1990, Murray 1990, Friedman 1991) and for the Eastern European countries as they have recently appeared on the world marked stage. These theoretic approaches are not able to explain the current locational tendencies in flexibilising industries and they fail to give a plausible description of the profound "breaks with the past" or "industrial divides" (Piore and Sabel 1989, 1984) experienced in the course of this century. Also the regional policies based on these more traditional insights increasingly has reached a deadlock. What is needed are also new directions for regional policy embedded in more general reflections on the role of the state vs. the enterprises. As a consequence, in regional policy as well as in research on regional development, since the beginning of the 1980s a strong surge for new concepts, new approaches and alternative views has been growing. This paper contributes to the current debates on these issues.

What is offered - at a time when the first-hour buzzwords of the 1980s such as "post-Fordism", "flexible specialisation", "industrial districts" and "innovative milieux" have become subject to critical examination against empirical evidence and theoretical coherence (Asheim 1992 and Jessop 1992) - is a *bricolage* of new vocabulary definitions, discussions of singular concepts and more elaborate case studies of different industrial branches. Initial attempts to construct a more general theoretical and political framework are only emerging (e.g., Scott and Storper 1992, Storper and Walker 1989).

Joining the current of this work, in this paper we will try to tie together some of the loose ends of this *new industrial geography*, focusing on one central aspect: "communication", more precisely, "communicative rationality", "communication networks", and their socio-spatial embedding. In the literature (see also Ernste and Meier 1992) many indications of a new organisation of communication, be it the management through strategic networks (Sydow, 1992) the re-evaluation of external relations (Häusler 1992, Christopherson and Noyelle 1992) or the regulatory functions of institutions. There is evidence of a qualitative shift in communication practices: to survive in a *milieu* of increasingly flexible productions methods and service requirements, network organisations are needed that "call for negotiations rather than for command" (Sydow 1992, p. 116).

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The author wishes to acknowledge the valuable exchanges on this theme with Prof. Dr. Charles Sabel of the Massachusetts Institute of Technology (MIT), Dr. Christoph Meier of the Federal Office of Economic Activity (BFK), Mr. Remo Mordasini of the Central Commission for Regional Policy (ZRW) of the Federal Office for Industry, Trade and Labour (BIGA), Dr. Beat Hotz-Hart of the Department for technology and employment of the Federal Office of Economic Activity, Ms. Verena Meier, of the Department of Geography of the University of Basle, Ms. Dagmar Reichert and Mr. Wolfgang Zierhofer of the Department of Geography of the ETH.

Elaborating further on "negotiation rather than command" and its implications for regional theory we will examine past regional economic theory and current evidence for their concepts of communicative rationality. Our main base will be the "theory of communicative action" by Jürgen Habermas (1982) and his distinction of system and life-world integration.

The stress on communication activities must in part be characteristic of the present economic climate with Fordist production rationalities in crisis and major political and economic restructuring throughout the world. Our argument is, however, that it has also been one of the weaknesses of traditional regional theory to treat communicative rationality as marginal. Therefore, our aim is in essence twice "post-Weberian": elaborating and overcoming the work of Alfred Weber the location theorist, and through mediators such as Anthony Giddens and Jürgen Habermas questioning the flexibility of purposive rationality as proposed by his brother Max Weber, the social theorist.

## 1 THE EMERGENCE OF A NEW APPROACH TO REGIONAL DEVELOPMENT

### *The heritage of neo-classical economies*

In the framework of the neo-classical paradigm the dominant problem which the economy faced was perceived as the problem of raising the material standards of living for the mass of the population. Efficiency of resource allocation was seen as the main goal of economic regulation. The market mechanism was thought to be the recipe to solve exactly this problem. As a consequence, the liberation of the market mechanism from all restraining factors became one of the principal goals in economic policy, based on a by and large individualistic, hedonistic moral attitude. Traditional theories of regional development and industrial location, from Alfred Weber (1909) to Walter Isard (1956) and their followers, were developed in this framework of the neo-classical or marginalist view of capitalism. As such they took the usual neo-classical view of the economic actor as a lonely human being driven and motivated by his own individual desires and self-love and acting in a purely purposive rational, economical instrumental way (*economic man*). A theoretical framework was pre-occupied by the view that under conditions of free market exchange a beneficent and spontaneous social order would emerge as the unintended consequence of these kinds of individual human actions as if it were the product of some intelligent planner, or in the words of Adam Smith, of some "invisible hand" (1970 [1776]).

With its classical predecessors it holds in common the basic assumption that all economic events can finally be traced back to the behaviour of the individuals<sup>2</sup>. This "methodological individualism" or "methodological solipsism" as it is also designated, was, in classical times, combined with some kind of analysis of major institutions such as the state. If one looks more closely at the older, classical models such as those of Van Thünen, Weber, Lösch and Christaller, one finds them much more connected to political economy and

<sup>2</sup> In this view the lonely thinking "I", the "mental Robinson Crusoe" is the basic fundamental entity in the economy, behind which there is nothing left to which economic reality could be traced back to.

social theory than what later regional scientist "tradesmen" have made of them<sup>3</sup>. This institutional aspect was greatly neglected, however, by the neo-classical economists. Also the aspect of economic growth and development was initially faded out in neo-classical economics. In essence therefore neo-classical economic theory was confined to a theory of the market. A market on which - and that marks a second neo-classical paradigmatic pre-occupation - a general tendency towards a Pareto-optimal state of equilibrium is assumed. This market seemed to function in a historical and geographical vacuum - the whole economy to be imagined on the bare head of a pin.

For many classical, as well as neo-classical economists, the spatial distribution of economic activities was not an issue of first rank. Spatial unevenness was some kind of accident, difficult to accommodate in a theory of isolated actors and market equilibria. Under the assumption of freely floating labour and capital and under the condition of utility or profit maximising economic agents, it was to be expected that all economic activities would concentrate where the highest attainable profits or wages could be earned, levelling out the regional differences in factor prices (Schätzl 1981, p.93). The location of these activities therefore only played a secondary role (Holland 1976, p.1). In this view of non-frictionous space the whole economy could indeed be imagined to exist on the point of a needle.

As space was taken into consideration by regional scientists, it was first as isolated, punctual, locations, whose different factor costs were to be acknowledged and taken advantage of for a more perfect achievement of a supra-ordinated equilibrium-cum-profit. Spatial distance could enter as a cost factor, as long as it was predictable and optimum locations could thus be calculated (the optimum being the point of minimal cost or maximum wages, revenues or profits).

As a consequence, the aspect of uneven growth and development was initially faded out by neoclassical economists, as it could not describe development except for the notion of growth restricted to the path towards a state of equilibrium. In this sense neo-classical location theory also lacked an aspect of dynamism, and structural conditions appeared as "natural", i.e., stable, or subject to uncontrollable external factors, and as such were not assumed to change. The idea of qualitative development and a shift in structural conditions and therefore also of "optimum" location is however to a great extent missing. Factor influencing exactly these aspects, such as historical-structural rigidities, non-linear technological development, innovation in general, etc., were left out of the neo-classical model and treated as exogenous. Even as the post-war economic development called for such theory, the fascination has been more with the aesthetic of generalising mathematical models than with a close observation of actual quantitative and qualitative change.

Neo-classical theory thus present itself as a theory of restricted communication rather than flexible interaction with an environment. The neo-classical "economic man" is a mutilated actor strictly bound to the general principles of neo-classical economics. To be easily predicted, his motivational structure must be purposively rational and the limits to his actions are determined by scarce "natural" resource rather than by social conflict. As this actor's decisions are not embedded in specific social practices there is no importance to different regions bearing the history of such practices. If geography is considered, it is in terms of "natural" resource endowment and distance-related costs only.

<sup>3</sup> See for example A. Weber (1929) and Gregory (1981) on Alfred Weber and location theory.



As empirical evidence could hardly fit the predicted patterns, the rigid assumptions of neo-classical location models have successfully been challenged from very different perspectives. As we will see, however, the specific motivational disposition and rationalistic action orientation of actors have been questioned only recently.

One of the first elements of neo-classical economic theory which came under fire was its lack of a theory of the firm or, put in other words, its inability to take full account of the organisational framework and linkages of and between economic activities in the form of internal and external economies of scale. In the course of industrialisation the practical economic problem shifted more and more from raising the standard of living towards consolidating the high growth rates and material standards. Therefore the main economic problem to be solved became the design of mechanism and institutional arrangements which could reduce or deal with the growing complexity and uncertainty of the growing globalisation of the economic system. The hedonistic moral basis of the economic-man model was now substituted by a conventional morale which includes the possibility that an individual economic actor also behaves according to certain institutionally fixed arrangements resulting in a view of the economic actor as the *administrative man*.

### *Behaviourist enhancements and institutionalism*

Behaviourism, as one of the approaches challenging the neo-classical explanation of spatial economic structures, tried to enhance neo-classical theory with more differentiated ideas on how locational decisions were actually taken. The neo-classical model of the "economic man" and the related assumptions of perfect knowledge, profit or (rationally expected) utility maximising motives, were dropped for a more realistic, although still very much a-historic and purely formal, model of the "resourceful, evaluative, maximising man" (REMM) (see e.g. Greenhut 1956; Pred 1967 and 1969), with multiple goals (Cyert and March 1963) limited and biased information (Törnqvist 1970, Downs and Stea 1982) and uncertainty (Isard and Smith 1967).

However, these were still theories of individual *behaviour* rather than of social economic *action*. Economic action as a specific form of social action was not explained by the *social*, but merely by exclusive reference to the acting *individual* (Türk 1987). The assumptions of maximising behaviour and formal (instrumental) rationality were merely enhanced by an imperfection factor: "as far as possible" or "up to a level of satisfaction". Lacking a theory of social interaction explaining the aggregation of individual decision-making remained a major problem. In the end, even these less restrictive models failed, in general, to explain economic (spatial) behaviour satisfactorily and were forced to refer rather helplessly to even more "additional factors" (Smith 1981, p.139).

At the same time one of the sad (unintended) consequences of relaxing the restrictive assumptions of neo-classical economic theory was that some now also came to believe that the same principal mechanism might be employed in realms of social life which before were thought to be independent from the economic reasoning of the economic man. As a self-fulfilling prophecy this approach furthered the tendency towards "economic imperialism" as illustrated for example by the well-known textbook of McKenzie and Tülock (1984).

In the course of this tendency to overcome the deficient exclusive focus on the individual actor, an approach was developed which tried to take into account the social and institutional

aspects of locational decision making which had initially dropped out of neo-classical analysis. This new institutional approach borrowed mainly from organisation theory (McDermott and Taylor 1982), and attempted to develop some kind of a geography of enterprise (McNee 1960, Krumme 1969, see also Ernste 1987) or a theory of the firm (Coase 1937). These models made it feasible to accommodate for the concepts external and internal economies as well as a transaction cost approach (Williamson 1975; Scott 1983), the latter of which for the first time explicitly introduced institutional framework other than the "free and open market" as alternative settings for economic transactions.

Notwithstanding these extensions, the behaviouristic and organisational-decision-making approaches also still followed the neo-classical economists in their core assumptions, mainly enhancing them by focusing on specific contingent conditions. As a consequence these approaches are sometimes also qualified as "enlightened neo-classicist" (Boyer 1990, p.46).

One of the more prominent institutional approaches with special relevance for the problem of (regional) economic development is concerned with polarisation theories. Such theories of uneven regional development were proposed as early as the late 1950s by, for example, Myrdal (1957) and Hirschman (1958). Concepts such as "cumulative causation" and discussions on "social justice" challenged the idea of an aseptic individual actor and easily reached equilibria. If we look at one of the later versions of this approach - the core-periphery theory as elaborated by John Friedman in his "general theory of polarised growth" (1972) we find an explicit introduction of a "conflict model of social change" and consequent discussion of "conditions of innovation" and "innovation, power and authority in spatial systems", such as to present in many ways a predecessor for more recent theory on innovative milieus.

However, this approach as well, rather than questioning neo-classical approaches to regional growth, tries to provide a wider framework within which "traditional" theories can be viewed as a special case. Hopes for eventual equilibria still linger. The basic organisational structures of the capitalist economy are not further examined.

### *The Marxist structuralist approach*

A more radical critique of neo-classical location and regional development models as well as behavioural approaches in economic geography was supported by neo-Marxist theory (Holland 1976, Massey and Meegan 1979, 1982). This approach questioned the basic "ideological" assumptions of the neo-classical approach and pointed to the limitations of the organisational decision-making school for viewing the firm as a mere "adoptive stimulus-response systems" (Smith 1981). With their focus on the structural conditions of capitalist accumulation these approaches have been much stronger in theorising social and historical processes. However, the integration of spatial differentiation to an originally a-spatial theory has been more difficult, even though the challenge has been met on the international level (see e.g., Fröbel et al. 1980) and on a smaller scale, regional level (see Massey 1984).

The starting point of neo-Marxist theory can be located at one end of a continuum. This continuum ranges from the abstract general ("natural") and parsimonious conception of capitalism, as exemplified by the ideal-typical neo-classical economic theory, to the "over-determined" (Etzioni 1988, p.143) conception of the manifold specific social

structures, as in Marxism. On the one hand, Marxist "structuralist" approaches broaden the existing perspectives by including the institutional, (social-)structural setting of the economic agent. They have emphasised basic contradictory tendencies and therefore superseded the mainly static neo-classical view of economic growth by focusing on non-equilibrium dynamics. On the other hand, however, to the extent that these dynamics have been conceived of as fully determined by the inherent structures and core rationalities of capitalism - reducing institutions and structures to expressions of commodity relations, the labour-capital relation or the interaction of the two - another rather narrow conception of determined human behaviour is proposed. There is strong emphasis, for example, on the capitalist's strict capital-accumulation seeking objectives and on a strong materialistic motivational structure of the single economic agent (Smith 1981, p.140). What is radically changing in comparison to behaviouristically enhanced neo-classical models is that socio-cultural factors, which were viewed as contingent, are now regarded as *necessary* social relations. What was viewed as marginal before (e.g. the labour-capital-relation) is now, in the neo-Marxist view, part of the core set of necessary relations characterising capitalism, while in turn, other (contingent) factors are played down (e.g., some basic-non-labour-saving-aspects of cultural change).

By doing so, this structural Marxist approach emphasised some basic contradictory tendencies in capitalism and therefore superseded the mainly static neo-classical view by focusing on structural *non-equilibrium* dynamics. However, as these kind of dynamics are conceived of as fully determined by the inherent structures and core rationalities of capitalism, this approach stays firmly in the framework of rigid structuralism.

### *The regulationist approach and theory of structuration*

A more comprehensive account of the dynamic and contingent structures of our economy is given by the Marxist inspired "regulationist school" (Aglietta 1979, Lipietz 1987). With the concepts of "regimes of accumulation" and "modes of regulation"<sup>4</sup> the regulationist school distinguishes different structural levels with an increasing degree of contingency, and therewith also with an increasing degree of structural diversity and potential dynamism. These concepts are an attempt to fill the void between the extremes of the above mentioned continuum, and mediate between a more general (macro) and

<sup>4</sup> At the level of the whole economic system a *regime of accumulation* is defined as a set of "regularities that ensure the general and relatively coherent progress of capital accumulation, that is, that allow for the resolution or postponement of the distortion and disequilibria to which the process continually gives rise" (Boyer 1990, pp.35-36). It comprises (1) the organisation of production including the workers' relationship to the means of production, (2) the time horizons for the valorisation of capital as a basis for principles of management, (3) the distribution of value determining the reproduction of classes and groups, (4) the composition of social demand that corresponds to the tendencies in the development of productive capacity, and (5) the relations to non-capitalist economic forms (Boyer 1990, p.35).

At a second level *modes of regulation* are identified, which comprise any set of procedures and individual and collective behaviour that serves to reproduce and support "fundamental" social relations as exemplified by the institution of money, the wage relation and the competitive relations (= the way individual decisions are taken independently of each other or without reference to the collective whole). Typically these institutions operate essentially on the level of the nation-state (Boyer 1990, p.37).

a more specific (micro) conception of our economy. In this sense these notions are also meant to substitute for the theory of individual choice (methodological individualism) and the concept of a general equilibrium.

“Even perfectly competitive pure markets derive from the [collective] organisation of social space; they constituted on the basis of power relations and legal rules. [Also] preferences and productive possibilities are not defined *a priori*, but themselves result from socio-economic processes. Therefore, it would not be possible to define an equilibrium independently of the social framework that determines it” (Boyer 1990, pp.44-45).

This perspective is for the most part compatible with the even more general structurationist approach of Anthony Giddens (1984). There, social - and economic - reality is conceived of as comprising a “structural duality”, a constant process of contingent modification of social action and structure. Essential to Giddens’ theory of structuration in this context is the shift from a basically static to a more dynamic perspective and an extension of the economic “regulationist” view also to realms outside the economic system itself, giving a more full reference to the *social* character and societal embeddedness of economic action.

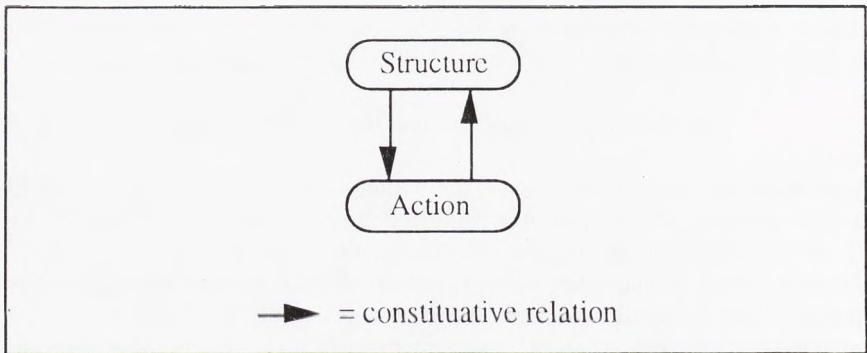


Fig. 1. Duality of structure.

On the one hand, in this theory individuals are portrayed as competent (innovative economic agents who know a great deal about the social world, who act purposively and reflectively. At the same time (social) structures constrain as well as enable economic action and in the performance of that action are being reproduced. Economic agents therefore both produce, constitute and reproduce social structures. They are not “cultural dopes” mechanically and collectively seeking the same goals such as a maximum of utility or a maximum of capital accumulation, but are skilful actors who can disrupt a social order, break conventions and challenge established hierarchies (Thompson 1989, p.58)<sup>5</sup>

<sup>5</sup> The latest developments in Eastern Europe and the USSR present us with ample and impressive evidence of this fact (for a more comprehensive discussion of structural change in these countries see also Ernste & Meier 1992).



On the other hand - and that is the other side of this duality - (social) structures do influence the (spatial) economic behaviour of firms and individuals. Similar to the regulationist school's notion of modes of production, Giddens also distinguished different levels of structuration, from the general *structural principles* at the highest level of abstraction through *structural sets* at the intermediary level to the *elements of structuration* at the most concrete level, each of which delimits the scope of institutional variation at the subordinate levels. In the framework of our capitalist (class-)society Giddens for example describes the dominant structural principle as a specific capital/wage-labour relation and a commodification of time and space, and the characteristic structural set as comprising such categories as: "private property, money, capital, labour contracts and profit" together with their interrelations. At the bottom level specific forms of the (spatial) division of labour within capitalist enterprises are to be located as the basic elements of structuration (Thompson 1989, p.67). At each of these levels, however, as we have seen above, a certain degree of freedom of action exists. Therefore the structural (neo-)Marxist idea of some general unscrutinisable principle governing the developmental tendencies is dropped in favour of a more contingent causal pluralism in which the role of the actor as an agent of change is strongly emphasised.

One of the more recent approaches, which heavily (although implicitly) emphasises this kind of structural duality and structural dynamism, is exemplified by the work of Storper and Walker (1989) and by the work of Scott and Storper (1992) borrowing some of the core concepts of the regulationist school of thought. On the one hand they still stand in a Marxist tradition and feel themselves committed to the basic Marxist conceptualisation of capitalism with its basic categories of analysis. On the other hand, they try to transcend from its rigidities by adopting a less restrictive and more realistic view of the (spatial) dynamics of society.

In this view it is essentially the imperfection of the market economy which enables the sustenance of certain regimes of accumulation and it is also this "imperfect" structure which enables the basic speculative, experimental and innovative actions of investors, managers, workers and consumers; which is also responsible for structural growth and dynamism. Successful speculative actions enjoy extra rewards as long as the economy does not level these differences out. Also, finally non-successful speculative actions enjoy, at least for some time, the protection of a non-perfect market which does not immediately punish them for, for instance, higher initial costs and creates some room for the emergence of some external or internal economies. Creative and experimental behaviour breaking with established ways of economic action is additionally encouraged by many (endogenous) institutional mechanisms of our capitalist economy such as market competition, private property, profit seeking etc. This conception of disequilibrium growth makes it possible to explain basic, drastic structural changes in our space economy.

One core element in this action-oriented theory of structured change is of course the role of the actor, the human being or as Storper and Walker (1989, p.51) express it: "[...] human beings are the central force in the production process. Production of commodities by means of commodities (Sraffa 1974) does not capture this fact satisfactorily (Harris 1978). Labour is the key factor - the *differens specifica* - distinguishing industry from natural processes (Marx 1867). Mechanical advance can proceed for a time without direct reference to labour, but production as a whole cannot [...] (Walker 1988)". It is by taking the economic actor seriously as a human being with its many-sidedness and complexity,

with its conscious- and sub-consciousness, with its different rationalities and diverse motives, that we can come to a better understanding of the dynamics of our human-made socio-economic structure.

Now that we reached this conclusion in this short and inevitably incomplete and rough overview of the deployment of a theory of spatial economic development, we will try to follow suit by going even one step further. To do so, we will return to flexible specialisation as the central concept of this paper. As a starting point we will first give a short characterisation of the concept of flexible specialisation in a still rather traditional vocabulary. Then we will try to re-interpret the concept of flexible specialisation in terms of a combined theory of structuration (Giddens 1984) and a theory of communicative action (Habermas 1987).

## 2 ONE STEP FURTHER

### *Flexible specialisation, an initial perspective*

In their argument on a “second industrial divide”, Piore and Sabel (1989 [1984]) have pointed to new trends in corporate restructuring in the 1980s. The concept of “flexible specialisation” was introduced to capture the main characteristic of new corporate strategies. This concept has become one of the most influential in debates on industrial change and territorial development in the 1980s and probably will remain so during the 1990s. “Flexible specialisation” has been picked up by numerous researches (see also Ernste and Meier 1992) and extensive evidence supporting or refuting the concept has been collected in a great number of regional case studies.

The evidence present itself as follows: For the past few years large firms have tended to break with traditional strategies concerning their organisational structure. Pressured by increasingly segmenting markets they were forced to seek alternative strategies. It was found that in many firms a conceptual scheme for a new strategic approach towards corporate structuration is emerging. Many aspects of these newly emerging strategic indeed resemble the concept of *flexible specialisation* based on decentralised networks of specialised, highly innovative and flexible independent firms or work units.

Roughly, the new strategy for corporate structuration can be summarised as follows: To increase competitiveness in an ever more volatile market environment firms are forced to reduce costs and production lead-time and, in general, become more flexible. Under these circumstances the former economies of scale and scope of these firms break down and production structures have to be reorganised. Under rapidly changing market conditions the highly vertically integrated bureaucratic mass-production organisations with their extended division of labour between dispositional “nonproductive” and productive functions may no longer be efficient. To be able to deal with this new market challenge, functions like conception, planning and production have to be merged again, leading to much flatter hierarchies. Only by the re-integration of these functions, often supported by new flexible machinery and information technology, could reactive time be shortened - challenging rigid old communications links up and down the traditional hierarchies and discarding some of the bureaucratic burden.

At the workplace this could mean that production work teams are now simultaneously made responsible for conceptual as well as operative tasks. Broader training and collaborative relations are the self-evident basic prerequisites for such an organisational conception. The resulting increased autonomy and independence raises the adaptability and innovativeness of these work teams. Smaller semi-autonomous production teams or even independent profit centres are also in demand as the different production lines are disentangled to further increase horizontal and vertical independence and flexibility, enabling a more flexible use of inputs. This, of course does not mean that no transactions take place between these units or firms. It only implies that communication is more flexibly managed via internal and external markets.

The intensity of these linkages may sometimes even give rise to some degree of external economies leading to spatial agglomerations (Scott and Storper 1992). Spatial agglomerations of linked production and service plants can develop over time into full-fledged Marshallian industrial districts, as is well documented for the "Third Italy". One of the essential features of such industrial districts or new "growth territories" - and probably one of the keys to success - is their embeddedness in a thick tissue of social relations and a *regional industrial culture*. It is this *thick socio-cultural fabric* which carries the normative field towards co-operation and fair competition and it may bear the tacit knowledge of a long tradition of producing specific products.

These kinds of flexible production systems may also develop in the form of industrial complexes with a dispersed, global network of production and service units (Scott and Storper 1992). Even in these kinds of global networks a common basis of understanding in the form of a certain *corporate culture* is an essential part of the glue keeping it together. As it is difficult to conceive of a corporate culture standing totally apart from the industrial culture of the different territories linked up by such a globalised productive network, one can ask if these kinds of networks connect nodes of production located in territories with a similar or complementary socio-cultural background enabling the development of an own corporate identity.

### *Flexible Specialisation, a life-world view*

Although on first sight this brief description might seem rather straightforward and without any deeper meaning, a second look reveals that there *might* be an implicit logic behind this "clean break" with the past, as it is represented by the change of paradigm in corporate organisation. Market pressures which are driving forces of this process may actually be just superficial but well documented indicators of a much deeper societal process. It is this "clean break" with the past, this "quantum jump" which we would like to explain with a theory taking the economic agent, irrespective of whether he is a capitalist, an entrepreneur, a manager or a worker, as an agent of change, and which could lead us to a more comprehensive explanation of geographical industrialisation in general and the phenomenon of growth peripheries in particular.

As we recall our emphasis on competent actors and, following Giddens (1984), a duality of structure and action, i.e., actors in their daily practices reproducing structures as much as responding to them, we can ask what kind of normative aspirations will strengthen, or conversely, weaken certain structures, and what kinds of structures will further certain communicative linkages between actors. To describe alternatives of communicative strategy

we can draw on the twin concepts of “social or life-world integration” and “system integration” as they were introduced by the German sociologist Jürgen Habermas (1987) in this “Theory of Communicative Action” and which now have gained entry to social geographic theory.

We speak of social integration in relation to our (symbolically) structured day-to-day life-world in which we communicate with each other (Gregory 1990). Our life-world is the realm of day-to-day experience, which we for a great part unreflectedly accept as given. Typically, this is the world in which we grow up. In this life-world, which comprises all the familiar and traditional forms and structures of life experienced as “natural”, inter-personal (face-to-face) understanding is possible because in this familiar world we already know and consent tacitly to the moral-practical *meaning* of many day-to-day things. Direct, face-to-face communication plays a key role as it allows for complex negotiations and a spontaneous formation of trust - or dis-trust. Anthony Giddens (1984, p.139), drawing on Heidegger, has put the concept of life-world in a time-geographic perspective, describing it as the world in which routinised interaction takes place between people, who are somehow at least temporarily co-present in time and space (see Figure 2) (Gregory 1989, p.79). It is in this life-world that actors develop their personal identity and become *socially integrated*.

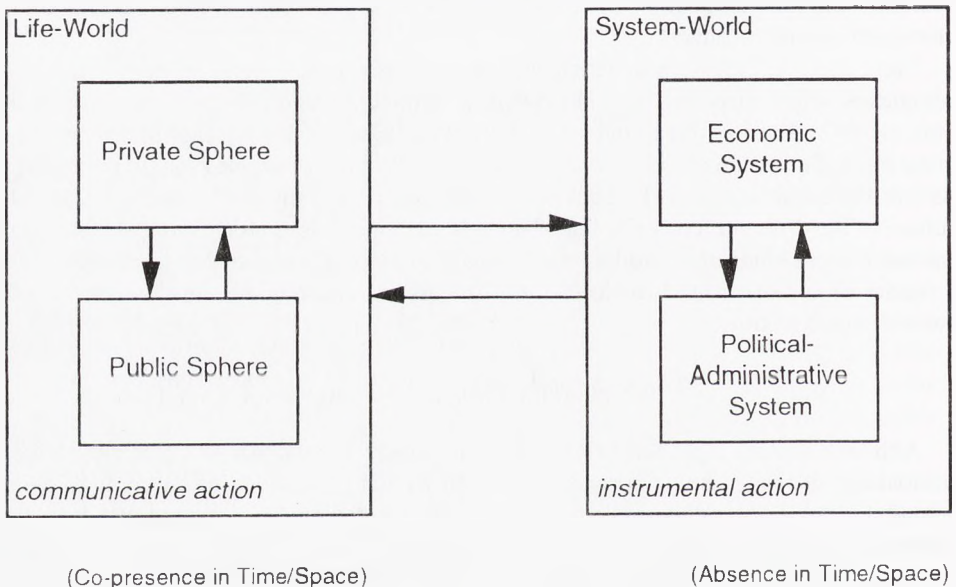


Fig. 2. The realms of social- and system integration.

Many of the traditional images of the world as well as many norms of action which are handed down to us in the process of socialisation are sacrally protected by myths, meta-physical or religious interpretations, many of which were superseded in the process of enlighthentment by a communicative search for consent. Normative consent was replaced by argumentative understanding and reasoning. This secular process by which formerly



unquestioned normative traditions are substituted by *communicative action* is what Habermas calls *life-world rationalisation*. This concept of life-world rationalisation will play an important role in our further argument.

On the other hand, in our society we develop several functional (sub-)systems such as the economic system and the political-administrative system (Luhmann 1988, 1985, Wilke 1982) in which the meaningful communicative co-ordination of action is replaced by discursive-free mainly purposive instrumental action dominated by a strong *functional instrumental rationality*. It is this kind of rationality, which in contrast to the life-world rationality, is part of the modern dream of total control over socio-technical complexity and uncertainty. The kind of integration taking place in these systems is often highly formalised in the form of some kind of control media or communication "codes" like "money", "power" or "decision-making competence" and is designated by Habermas as *system integration*.

Through the introduction of these types of system integration the co-ordinative power of society is precipitously increased, facilitating a corresponding rise in organisational complexity. This kind of system rationality can, therefore quickly develop a kind of self-induced dynamism taking over and colonising an ever-growing part of our life-world. For the *system* the main problem is how to bring the behaviours of all kinds of individuals - entrepreneurs, capitalists, managers, workers, state employees, financiers and all other political-economic agents - into some kind of configuration that will keep the system functioning (Harvey 1989, p.121-122). For the sake of functionality it therefore tends to absorb an ever-growing part of our life-world. Consequently, an increasingly smaller part of the original life-world needs and desires are satisfied by the system. The success of system rationalisation is not measured by the satisfaction of life-world needs but by the increase in efficiency and co-ordinate capacity. World market prices, rather than local needs, will determine the flow of resources and knowing about legal rights is more important than a negotiated commonsense social justice.

Following Habermas, Gregory (1990) states that "the colonisation of the life-world occurs as soon as monetarisation and bureaucratisation reach beyond their mediating roles and penetrate those spheres of life-world which are responsible for cultural transmission, socialisation and the formulation of personal identity. [...] People are made to feel less like persons and more like things". The increase in one-dimensionally defined efficiency has to be paid for by a loss of practical meaning for life itself (Marcuse 1964; Gorz 1989).

In terms of geographic locational theory we have already pointed to the fact that classical models were stripped of their political and social references and used as tools for more "objective" calculations of geometrically optimal locations. Economic and political systems were viewed to be "naturally" emerging, independent of locally specific life-worlds. Actors were expected to function according to system-rationality, while the life-world qualities were silently phased out and transferred to the (economically not relevant?) realm of the family. We then can trace - up to this moment - the enormous difficulties location theorists have had re-introducing competent actors and life-world reference to their models.

It is here that we can set emergence of flexible specialisation and the emergence of new "growth peripheries" and ask if the emergence of new forms of communication networks, as they emerge with flexible specialisation, can be interpreted in terms of shifts between social and system integration. One can even ask further, in particular with an eye on the rapidly changing economies of Eastern Europe, if the respect for life-world values

as they are specific to a *local culture* will not be one of the key variables of successful and sustainable regional economic development. The characteristic and dominant post-war regime of accumulation, often designated as the *Fordist regime of accumulation* represented the culmination of the system rationality we have been describing above. Since the concept of Fordism has been depicted extensively and repeatedly in the relevant literature, suffice it here to say that it consists of<sup>6</sup>:

- Intensive organisational (system) rationalisation, a high degree of (Taylorist) division of labour (scientific management) and vertical integration;
- specific consumption habits (mass consumption of standardised industrial products and services) fostered by heavy advertisement;
- a Keynesian economic policy stabilising consumption and the reproduction of labour power;
- with procedurally bureaucratised and corporatist (state-managed) regulation for neutralising conflicts between capital and labour.

It is a well-known fact that this Fordist system slipped into an economic crisis at the beginning of the 1970s. What is less widely acknowledged is that this was more than just a cyclical crisis. The progressive dynamism of the Fordist regime of accumulation also caused its own source of its legitimation, the social (normative) integration, to break down and created an identity crisis which reinforced the economic crisis (Habermas 1973). The industrial divide, as it is called by Piore and Sabel, is therefore more than “just” a crisis of growth, productivity and profitability internal to the economic system but also, if not mainly, a much more fundamental social and political crisis - and that is the reason why it does not suffice to analyse these processes within a theoretic framework remote from a societal reality which cannot be expressed in the usual economical terms. Against this background it was Herbert Marcuse (1981) who postulated a “cultural revolution”, a revolt of the “urges of life”. According to this view, people would increasingly respond to the colonisation of life-world with the repression of puritan labour morale, of instrumentalisation and of the principles of competition and alternatively develop a whole new sensuality (Hirsch and Roth 1986, p.90-91).

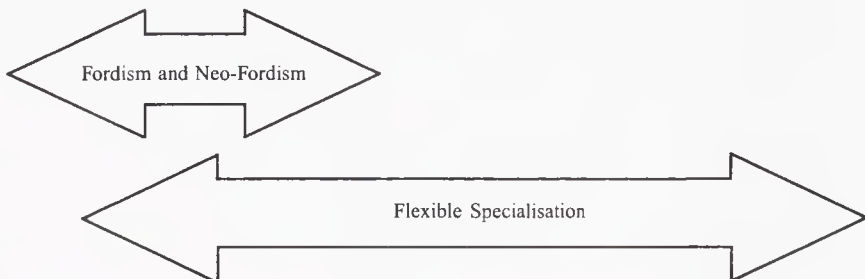
Regardless of whether the cultural resistance took place suddenly or in small evolutionary steps, it is in this framework that we can ask if flexible specialisation is *one* possibility (among others) to partially overcome the identity crisis by reviving the kind of communicative rationality which was swallowed by the ever-growing *system*. Technocratic management is bade farewell and in its place strategic for an improved corporate communication culture, for human resources development, for the creation of a solid basis of internal and external communicative understanding and of long-term personal learning are installed.

What we observe, at least in some cases, is a transformation from the primacy of *system rationality* to the primacy of life-world *communicative rationality*. By reviving communicative rationality in the firm we *add* a whole new dimension to its (spatial) organisational strategy (Ulrich 1987, p.438). Table 1 circumscribes the old and new dimensions by its central keywords.

<sup>6</sup> For further details see Ernste and Jaeger (1989) and the excellent accounts in Harvey (1989), Hirsch and Roth (1986).

Table 1. Two-dimensional conception of organisational management

<i>First Dimension</i>	<i>Second Dimension</i>
<b>Strategic Management</b>	<b>Consent-oriented Management</b>
Problem: Uncertainty ("What are we able to?")	Problem: Disagreement ("What do we want?")
Information Processing (Analysis of Facts)	Formation of Volition (Genesis of Norms)
"Objective" Information about Instrumental Causal Relations	Inter-Subjective Consent on the Meaning of Things and Actions
Monological	Dialogical
Rational Handling of Objects	Rational Dealing with Subjects
Operational Leadership	Political Leadership
Generation of <b>Strategic Competitive Potentials</b>	Generation of <b>Potentials for Communicative Discourse</b>
Utilitarian-strategic Rationality	Communicative-Ethical Rationality
Rationalisation=Improvement of Control <i>over</i> Things and Persons (Social Technology)	Rationalisation=Improvement of the Conditions for the Argumentative Creation of Consent <i>with</i> all People involved (Rational Politics)
Introduction of Information-, Decision-, Control and Public Relations-Techniques	Development of a Corporate Communication Culture (Internal and External Relations)
Functional System Integration (System Control)	Normative Social Integration (Life-World Legitimation)
Locations: Least Cost Location	Location: Location in Innovative <i>Milieu</i> with High Commu- nicative Potentials
State: Highly Developed	State: Under-developed



Michael Piore, as one of the advocates of this more optimistic interpretation of flexible specialisation, using the vocabulary of Hannah Arendt (1981), underlined exactly these aspects of flexible specialisation as crucial for the differentiation of flexible specialisation from more neo-Fordist interpretation (Amin and Robin 1990) of the observed tendencies towards flexibilisation.

A look at flexible specialisation in the light of this rough theoretical framework provides us with a number of clues and concepts with which we can design a wholly other picture of the phenomenon of flexible specialisation, industrial districts and growth territories. The story has to be rewritten.

“What dissolves in the face of the notion of production as an arena for [communicative] action is the paradox, which is do central in every characterisation of these districts, of competition and co-operation. It dissolves because both competition and co-operation lose their meaning. [...] We have mistaken competition for the individual’s attempt through [communicative] action to differentiate himself” (Piore 1989, p.19).

Competition and co-operation are two sides of the same coin. This can also be said for the concept of opportunism, so important in transaction cost theory. “It is generated by the conflict between one of the means (collaboration through community) and the ends [income/profit generation], or as Marx might have put it, between the collective nature of the means and the private nature of the ends” (Piore 1989, p.19). In our new view both means and ends reveal a very collective nature which resolves the conflict to a broad degree. And to make it even more complicated, production also becomes the end while income generation (marketing the product) in this view would represent the means. The balancing of both ends, income generation and the communicative process of production, the balancing of system integration and social integration, becomes a central problem (Piore 1989, p.26).

However, as long as we hear about “cathedrals built in the desert” (Grabher 1992) or read about neo-Fordism (Amin and Robins 1990), the outlook becomes more pessimistic as in these cases we are merely confronted with a one-dimensionally flexibilised Fordism. In Table 1 this one-dimensional approach is circumscribed in contrast to the multi-dimensional approach of flexible specialisation.

As *social* integration never takes place in a void, rather it has to be anchored in the concrete local world of everyday symbolic and material re-production. Evidently, the realisation of its promise is spatially selective and great efforts to find culturally specific “Third Ways” (Šik 1992) must be made, should flexible specialisation be more than a tool of increased system efficiency. This implicitly means, that social integration, in contrast to system integration is necessarily regional and that we are talking of the globalised economy as a network of regions. It also poses the question of how to integrate these regions according the logic of flexible specialisation. This leads us to the issue of regional development policy.



### 3 FLEXIBLE SPECIALISATION AND REGIONAL POLICY

In the foregoing section I have tried to describe how flexible specialisation has transformed the inherent logic, the implicit rationality with which we constitute our economic activities. In this sense flexible specialisation would, as the sub-title of the German edition of Piore and Sabel's book "The Second Industrial Divide", suggest, indeed "*bring back the economy to society*", again!

Flexible specialisation as a mode of regulation of our economic activities on the regional and supra-regional level is neither an alternative to the market, nor an alternative to the state. Flexible specialisation only shifts the emphasis away from the market and away from *traditional* state regulations towards a more meaningful life-world mode of regulation. The concept of flexible specialisation includes to a great extent the active, supportive and co-ordinative role of government. The main difference again is the kind of rationality on which this kind of government involvement is based.

The following case study on Swiss federal regional policy will clarify the special relationship between flexible specialisation and specific forms of government involvement in regional development.

Flexibly specialised networks of small firms could be much more flexible relative to mass producers, and hence more competitive in volatile environments. This does not mean, however, that these firms or network of firms can cope with *any* kind of change in the environment. There are no machines capable of making any or all goods. Neither can we expect a regional or corporate culture, no matter how strong its social integration, to be capable of fostering, and adapting to, any kind of (radical) change in technology or market conditions. The Swiss watch industry in the Jura district is an illustrative case for this phenomenon. This district is probably the most typical example of a "flexible specialised" industrial district to be found in Switzerland, in the sense Brusco (1990a) described it.

#### *The innovative stalemate of the: Swiss watch industry of the Jura industrial district?*<sup>7</sup>

The Jura district is traditionally characterised by a large proportion of, often family-run and locally owned, small and medium-sized manufacturing enterprises, mainly in the watch-making and precision instruments industry. It is made up of hundreds, and in the past (it experienced its first take-off already around 1750) even thousands, of small companies and (home-)workshops specialised in the production of a single or just a few different components. Next to them, a number of bigger companies can be found assembling and selling the watches mainly on foreign markets. The main source of revenue therefore is subcontracting work and almost all of its final output ( $\pm 95\%$ ) is absorbed by the export market. The Jura region was traditionally attractive as an area far away from the restricting powers of the guilds, offering a pool of cheap and reliable (low- and medium-skilled) labour. Over the last two centuries it showed a steady pattern of growth mainly based on an organisational pattern which is sometimes designated as "proto-capitalism". It already used a high degree of division of labour long before the advent of the industrial revolution. On the other hand, it lagged behind in the introduction of mechanical serial production during the second phase of the industrial revolution.

<sup>7</sup> This section is mainly based on Glasmeier and Brunner (1990).

During this period the skills in producing high precision micro-mechanical devices were further refined to an unmatched level of precision. Much of this know-how was of a tacit nature and passed on by the whole community. As was the case in other traditional artisanal, centres this know-how was more or less "in the air".

In this century the dominant position of the Swiss watch industry on the world market was, however, contested several times, especially by large American and Japanese manufacturers. At the beginning of this century it was the Americans who tried to conquer parts of the market by a typically "Fordist" (low cost, low skill, high volume) mode of production. The Swiss successfully averted the US offensive by adopting parts of the American way of producing in an intermediate form of production "that combined mechanisation and partial vertical integration. Standard parts were mechanically manufactured at large scale in centralised factories while flexibility was maintained in dispersed design and assembly activities" (Glasmeier and Brunner 1990, p.18), thereby maintaining product complexity and high levels of precision.

In the wake of economic instability and would crisis in the years after the First World War the industry was upset by increased opportunism, price cutting and the undermining of the export market position by the export of movements and parts to competing firms abroad. Not without difficulty, this crisis also was overcome by the introduction of strong regulation in the framework of cartels and associations<sup>8</sup> and by the regulating intervention of the government<sup>9</sup>. During the following period until the beginning of the 1960s the Swiss watch industry experienced stable growth, again expanding its market share to a quasi monopoly. In the early 1960s new foreign competition threatened to price the Swiss out of the market. To enable a dynamic answer most of the restrictions were abolished again, freeing firms to increase their market power by mergers and establishing production sites in countries with cheap labour such as Hong Kong and Singapore, resulting in a phase of concentration. Again, they managed to reach price parity with their main competitors in Japan and the USA.

This time, however, the troubles continued following the introduction of fundamentally new technologies, the electronic watch and the digital display technique, and the lost market shares in an ever-growing market could not be won back again. "In the early 1970s world demand for watches was overwhelmingly for mechanical devices. Only two percent of export sales were electronic watches. But in just two decades, the structure of demand changed. By the late 1980s, electronic products comprised 76 percent of world consumption = approximately 60 percent digital and the remainder analog watches" (Glasmeier and Brunner 1990, pp.29-30). Although the Swiss were the first to develop a quartz watch in 1971, the main part of the new technology (semiconductors and a totally different production apparatus) was derived from a knowledge base (fundamental science research) originating outside the Jura watch region (Glasmeier and Brunner 1990, p.32). Among other reasons (see Table 2) Glasmeier and Brunner following Dosi (1982) mainly attribute the Swiss inability to successfully react to the new crisis to the rigidity of the technological paradigm so deeply rooted in the local industrial culture. The Swiss trials to adopt the new technology were in the words of Glasmaeier and Brunner.

<sup>8</sup> For example: the Swiss Watch Industry Federation (FH), the EBAUCHE S.A. trust combining several movement producers, the Union des Branches Annexes de l'Horlogerie (UBAH) organising the manufacturers of other components and the ASUAG.

<sup>9</sup> The statut de l'Horlogerie.

"[...] crippled by a manufacturing culture steeped in tradition. Rapid change was the anti-thesis of watch culture which rewarded patient methodological actions within an existing technological paradigm. [...] Fixation with precision had lulled the region's firms into believing they were invulnerable to external forces. Supreme precision, however, did not require a theoretical understanding of new scientific developments. Rather it necessitated great attention on detail" (Glasmeyer and Brunner 1990, p.33).

These problems were amplified by the highly fragmented character of the whole industry. None of the dominant firms could exercise enough control over the vast number of component producers to take the lead in co-ordinating change. Additionally, none of the smaller firms had the financial power and risk capacity to make the first step in developing this totally new technology. What was missing was the capacity to fundamentally restructure the whole region's industrial base. The Swiss watch industry reached the limits of the *local* mode of regulation, as the regulationists among us would express it.

This example clearly illustrates the limits of flexible specialisation, even though this example might not represent the most ideal case of flexible specialisation. Specialisation and the necessary limited flexibility of its local cultural base in every case entails a certain market risk. Even the most flexible producer of mechanical watches is in trouble when markets shift to electronic watches (Sabel 1989, p.54). Even "under favourable circumstance re-conversion takes time, which firms under duress do not have. [...] Industrial districts should therefore want to re-insure themselves by pooling resources with other equally flexible regions [...] to provide the capital, technical assistance, vocational training, and unemployment payments required for re-conversion to new markets" (Sabel 1989b, p.54).

Table 2. Reasons for the innovative stalemate of Swiss watch industry in the 1970s

- Market auditing was too much focussed on the other Swiss firms to be able to resolve the newest trends in time;
- The innovation cycle was rigidly organised around the two-year product-cycle specific for mechanical watches and made it difficult to adapt to the much shorter innovation cycle of electronic watches;
- Rising oil prices and currency revaluation enforced the crisis by eroding price competitiveness;
- The mainly elderly management at the time of the introduction of the quartz technology were averse to taking up the challenge;
- The new cheap inconspicuous electronic watches needed a totally different type of outlets, while the Swiss were locked in a centuries-old distribution system built around the watch as a piece of jewelry;
- For the re-location of production to low labour costs countries, the Swiss lacked the organisational flexibility and cultural sensitivity required to operate production facilities in different countries;
- The new technology was widely available which increased the risk of the invasion of the market by new competitors;
- Swiss R&D focussed on problems within the existing technological paradigm facing traditional markets in stead of creating a basis for radical innovations for more than just traditional markets;
- The concentration on the perfection of the existing - basically simple - mechanical techniques over more than two centuries made the adaption to a fundamentally different technological paradigm practically impossible.

*The government answer: Regional policy, from bureaucracy to life-world*

Charles Sabel, combining the concept of flexible specialisation with a updated version of the welfare state, suggest that industrial districts should re-insure themselves against these innovative stalemates. In Switzerland it is exactly this which is now slowly but surely emerging in the framework of federal regional policy. In comparison to many other western countries, in Switzerland an explicit regional policy at the federal level was adopted rather late. After some feeble advances in the 1920s<sup>10</sup> and 1950s<sup>11</sup> promoting the "protection" of mountainous regions - at that time mainly suffering from heavy population losses - by providing only a minimum level of social welfare, a law for financial equalisation between cantons was passed, at the end of the 1950s (1959), regulating the federal support of the poorer cantons (states). It was not until 1970, under the strong impression that the whole Swiss watch industry would probably go down the drain, that these first attempts were given a more forcefull and comprehensive conceptual framework (Flückiger 1970). Following this concept the federal government intended to improve the conditions for living in mountainous areas by the expansion and improvement of its local *infrastructure*. In 1974 a law fostering investments in (peripheral) mountainous areas (IHG<sup>12</sup> - Regions) of Switzerland could finally be passed as a direct reaction to the general crisis in the regionally strongly concentrated watch industry. In the beginning, its means were confined to classical infrastructure improvements, the vouching of credits for small and medium-size enterprises and the specific support of the hotel business in the peripheral tourist resorts<sup>13</sup>. As a further reaction to the deepening crisis in the watch industry these regional policy instruments were enhanced by the federal law for support of economically endangered regions<sup>14</sup>.

In general this first period of federal regional policy can be characterised as an infrastructure- and employment-oriented regional policy aimed at countering the economic and demographic drain in the peripheral mountainous areas. By improving the specially immobile production factor "infrastructure" one hoped to mobilise the local latent development potentials. And as the general recessions as the time made this policy largely ineffective, a means for direct financial help to companies to preserve employment was created at the same time.

Though the executive office for the federal regional policy was complemented by offices for economic development in each canton and even by some regional secretariats in the forested regions themselves, the first period of regional policy in Switzerland was typified by its strict centralised character. The federal government excercised strong influence on the design of regional development plans and on the measures to be taken in each region. The ideas and interests of the federal government had an overruling priority over impulses from out of the regions themselves. This partly led to a high priority for Keynesian-oriented demand side projects with a short-term effect, such as construction and defence spending.

This kind of centralised "Keynesian" regional policy survived only for a limited time. Soon it was recognised that this infrastructure and employment-oriented regional policy

<sup>10</sup> Proposal "Baumberger" 1924.

<sup>11</sup> Report on Measures for the Benefit of Mountain People' of the Federal Office for Industry, Trade and Labour, 1956.

<sup>12</sup> "Investitionshilfegesetz" (Investment Aid Law)

<sup>13</sup> Federal Law on Credits for Hotels in Underdeveloped Regions, 1976.

<sup>14</sup> "Bonny"-Resolution, 1979.



did not improve the long-term economic structure of the endangered mountainous regions. The jobs created proved to be not very long-lasting. The marginal improvements in the already rather high level (although in total still much lower than in the core areas) of infrastructure was rarely an important reason for significant investments in peripheral regions. Most of the direct financial support was used for rationalising and hardly ever for expanding company operations. Additionally rationalisations often took place within the framework of the main (traditional) production technology and product line, as already described above with respect to the watch-making industry. The improved educational infrastructure (at the intermediate level) even enforced the brain drain (Frey 1985). Therefore a reassessment of questions like "who should decide?", "What should the policy look like?" or "what kind of policy should be chosen?" and "who should benefit?" was necessary. After 1976 the regionally more effective general policy aiming at the development of human resources and at improving technological development, of the Federal Office for Economic Activity<sup>15</sup> in effect largely replaced the official federal regional policy. The main focus therefore shifted away from the local infrastructure and employment towards an innovation and re-structuration oriented regional policy. The Keynesian demand side regional policy was substituted with a policy aiming at the support of local processes of corporate restructuring, further education, R&D and technology transfer.

The centralised character of Swiss regional policy was seen as one of the main starting points for refurbishing regional policy. In the first period of Swiss federal regional policy its goals were formulated from top down. At the same time this policy could not and, according to the Swiss understanding of the role of the central state, also should not influence the actions and behaviour of the single (local) decision-makers very much (Frey 1985, p.109). This dilemma could only be solved by a totally new understanding of the role of the carriers of this policy.

Who are these carriers of Swiss regional policy? From the beginning of Swiss regional policy and in deviation from the regional policy in the former Federal Republic of Germany in which artificially formed administrative regions served as a unit of support, in Switzerland one strived towards a more flexible support of "natural", "living" clusters of co-operating communities<sup>16</sup>. Only when the control of central government of the regional policy was relaxed could this "bottom up" idea really unfold. The initially offered financial support stimulates co-operation between local governments. These co-operative ties are then often cemented under civil or even public law. The identification with the new institution of "support-region" on the level *between* the single communities and the canton forces the regions to define their own identity by assessing their potential strengths and weaknesses. These regions can set up their own priorities and projects. To a certain degree, of course, the responsible federal office still has the possibility to emphasise specific features or kinds of projects and give others a rather lower priority.

<sup>15</sup> Bundesamt für Konjunkturfragen (BfK).

<sup>16</sup> A similar concept was followed in Italy with the creation of communal association in the form of the so called "*Communita Montana*" in 1971 (Nanetti 1988, p.85).

Table 3. Change of paradigm in Swiss federal regional policy

Old Regional Policy	New Regional Policy
<ul style="list-style-type: none"> <li>• sectoral approach (without taking relations between sectors into account)</li> <li>• one sided orientation on economic aspects.</li> <li>• standardisation of concepts over all regions by standardised guidelines and evaluation criteria</li> <li>• goals and measures were partly designed without checking their feasibility</li> <li>• ideas and interests of federal governments have priority over local initiatives</li> <li>• measures mainly directed towards construction of (physical) public infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• comprehensive approach (also taking relations between economic, social, cultural and ecological realms into account)</li> <li>• not just extrapolation of existing development but also development of new initiatives</li> <li>• formulation of regional specific goals and measures by local government itself</li> <li>• priorities of measures by feasibility testing</li> <li>• inclusion of organisational and promotion activities in development plans</li> <li>• larger weight for private sector projects</li> </ul>

Although the way Swiss regional policy has developed and is being conducted today mainly a product of federalist and decentralised *traditions* in Switzerland, there is no doubt that it can also be seen as a first step in the direction of what Sabel (1989a) described as a tendency away from Keynesian macro-economic policies towards the comprehensive local provision of social-welfare ("the localised welfare state"<sup>17</sup>) tied to programmes of structural adjustment enhancing the tendencies towards flexible specialisation. "The goal of these programmes is to help localities accommodate economic change by re-organising the way they produce goods and services. The cumulative effect might [indeed] by the creation of a federal welfare state in which sub-national jurisdictions have wide-ranging powers to determine the mix of services they provide their citizens and economy" (Sabel 1989a, p.2).

In Switzerland these kind of policies, whether in the framework of federal regional policy or in the framework of a general policy towards the structural dynamism of the economy, are only just now being developed and implemented. One of the most essential cornerstone of this new policy is the so called CIM-programme initiated by the central government in co-operation with private industry, local government and educational institutions. This programme is the second of its kind (after the CAD/CAM-Programme) in Switzerland. It is a so-called "impulse-programme" designed to tackle a specific problem during a limited time period (in this case, six years).

The CIM-programme concentrates on process-innovations in general and on computer-integrated manufacturing in particular. Similar programmes focussing on product innovations (micro-electronics) and certain producer services (computer-engineering) are

being prepared. The process innovations aimed at by the CIM-programme have great similarities with the kind of changes in the organisation of production we have been describing in the first section of this paper. Again flat hierarchies, small teams, specialisation on just a few key technologies and products and a comprehensive concept of labour are the main focuses of interest. The CIM-programme therefore strongly advocates the re-organisation of productive systems in a direction towards flexible specialisation.

The spearheads of the programme are seven so called CIM-educational centres representing nodes of competence for computer integrated manufacturing. These nodes of competence are regional centres for vocational education and further education, for research and development and for technology transfer. They are explicitly designed to have a network structure fostering co-operation between existing educational institutions, private industry and the regional consortia of local- and cantonal government. As well as in the case of the Swiss regional policy this programme also counted on the co-operation between regions to assist each other in institutionalising a process of structural adjustment to help single regions and firms out of their economic deadlock. In the framework of this programme more than one hundred establishments for technical vocational training and business administration co-operate with over four hundred so called CIM-partner firms, thirty-three corporatist organisations and the twenty-six cantons in seven regional (supra-cantonal) centres. By requiring a certain volume of potential "clients" and at the same time a certain volume of potential supplies of successful know-how (CIM-partner firms) a minimal guarantee for the *transfer* of an innovative competence from the "CIM-core" to the "CIM-periphery" is given. This is further enforced by the fact that many of these nodes of excellence have a number of associated satellite centres dispersed throughout the whole region. Financially the whole programme is just supposed to give an initial (temporary) incentive. Large parts of the total costs are therefore borne by local government and private industry who may also set up their own regional centre and its local specialisation.

Again what we observe is the first reluctant and uncertain steps towards a fundamental transformation of the inner logic of government policy. The first stage of federal regional policy in Switzerland can be characterised as a wavering attempt to install another control mechanism with which the functionality and efficiency of the system could be stabilised. Its centralised character notwithstanding its ultimate political legitimisation, clearly reveals the kind of (system) rationality on which it is based. Regional policy in this sense is not much different from other social welfare policies. The kind of compensatory social statism which this approach represented aimed mainly at the equal (standardised) treatment of all subjects. They were bureaucratically administered as passive incapacitated objects of the experts, who functionally happened to be in the position of the responsible decision-maker. As with the market mechanism, the morality of a claim was not evaluated as long as it complied with the rules of the game. This is what Sabel (1989a, p.15) calls *procedural justice*.

As also conformed by the case of Swiss federal regional policy, this kind of procedural justice did not succeed in resolving the fundamental problems for which it was created. On the contrary, in most cases it only reproduced the very conditions it was meant to eliminate (Sabel 1989a, p.14). In general, the growing political relevance of many "external effects" of the economic and administrative system additionally forced the bureaucratic system to take over an increasing number of new tasks and therewith to incorporate an ever-growing part of the life-world, driving the system to the internal limits of its feasibility

and manageability and to the external limits of its financability. This might not yet have been the case for Swiss federal regional policy, but in this realm as well the fear of an overburdening state (Brugger and Frey 1985) motivated the course corrections. Instead of more of the same one had to look for a more qualitative change.

The new rationality of Swiss regional policy lies in a much more emancipatory concept of regional policy, in which the communicative rationality is given a chance. Instead of being mainly compensatory, an emancipatory regional policy would be directed towards a rather preventive and comprehensive long-term structural policy, in which the "depressed" regions are not dealt with as sheer objects any more, but are stimulated to develop own initiatives. Subordinative state intervention is replaced by co-operative problem solving. According to Sabel (1989a, p.19), this opens the possibility of a much more *substantive* justice in which each region can become what it really needs.

To temper this optimistic interpretation a little bit, it has also to be said that it is no point of debate that Swiss federal regional policy is still a far cry from a full-fledged communicative regional policy. To a great extent it is still captivated by neo-classical economic and mechanical administrative thinking. It is also very striking how regional policy devoid of theory is pursued in Switzerland. The scientific community is therefore challenged to make its contribution toward overcoming this handicap.

Questions like: "How can we generate the specific concern for the kind of communicative action which is one of the important pre-requisites for the economic (and life-world) success of the flexible specialised industrial districts?", "How do we create the always so unique and unreproducible social (communicative) basis on which industrial districts depend?", or "How do we (re-)create the basic understanding and trust on which co-operation is based?" are still in need of a clear scientific answers. Some initial interesting ideas have already been developed by Lorenz (forthcoming) and Sabel (1990) among others, but much further work has to be done to be able to come up with a full-fledged theory of the co-operative firm as a basis for regional development and as an enhancement of transaction cost theory. The study of the Swiss experience with impulse programmes like the current CIM-programme might be very illuminating in this respect. But can we wait until we have a full picture? It here and now that we are confronted with huge and severe Problems which press for effective solutions. Especially in Eastern Europe we are forced to set the course now for taking a high or a low road to industrial restructuring (Pyke and Sengerberger 1992, p.11-13). In the next section I therefore want to focus on the Eastern European case and try to review the consequences of the things said before with respect of the Decisions made with respect to the regions of Eastern Europe right now.

#### 4 A CRUCIAL TEST CASE: ECONOMIC DEVELOPMENT IN EASTERN EUROPE

In the first three sections of this paper we have shown how development theory has itself developed from a bundle of rather unrealistic assumptions about the economic agent towards a more realistic view which recognises newer insights in the human capability to change and reduce spatial social and economic structures. Following the theory of communicative action (Habermas 1987) we subdivided these structures into life-world- and system-world structures and tried to explain the current processes of corporate



restructuring and the re-emergence of regional economies (Sabel 1989 b) or the emergence of peripheral growth territories (Storper and Walekr 1989) by referring to the changing relationship between these two worlds.

Many of the things currently happening at a staggering pace in Eastern Europe and the USSR can be explained in the same light. What we observe is a deep crisis of the Fordist/bureaucratic (see also Murray 1992) or "state-capitalist" regime of accumulation<sup>18</sup>, mainly a crisis of legitimation (Habermas 1973) and not just, as some observed might superficially have thought, a consumption crisis. It was not the consumptive success of Perestroika and Glasnost which restored Gorbachev to power again after the putch in August 1991, but it was a fundamental urge for more democracy, for more participation, for a more direct integration of the political- and economic system in people's life-world. It is an urge for (communicative) self determination.

Marx has to be credited for being the first to have tried to link the emerging economic system to the life-world again and as such Marxism has still not lost its fascination for many people. Marx destroyed Smith's fiction of the "natural" harmony of the liberal market economy. However, by doing so, the problem of some kind of reasonable practical order in the economy of our society was back on the agenda again. In Marxism, however, the search for such a rational order was substituted by a historical rationality, in the form of historical laws (the basic law of historical materialism)<sup>19</sup>. This is probably the core of Marx's structuralist failure. In the framework of these historical laws it does not make any sense to oppose these laws, just as little as it would make sense in the eyes of a liberal market economist to try to eliminate the "logic" of the invisible hand. At the same time Marx described these historical regularities mainly in economic terms, and by doing so unintentionally created the myth of the inscrutisable totality of the unresistable dynamics of the economic system, instead of bringing the authentic life-world needs of the potentially emancipated economic agent to bear against the apparent restraint of the economic systems. The human beings are in this way reduced to speechless technical-rational "laborans", the *homo-oeconomicus marxensis* (Ulrich 1986, pp.352-353). In this sense Marx and his scholars as well as many of the communist party leaders in Eastern European countries, as Habermas correctly observed (1981, p.342), were unable to recognise power, ideology and social distress as forms or results of forestalled or distorted communicative rationality<sup>20</sup> instead of immanent causal power of the materialistic capitalist economic system.

In the "socialist" society of the European communist countries the collectivization of production factors should have merged individual objectives with collective goals. This means that individual interests were supposed to be identical with the collective interest. The social consciousness was thought to play the role of moral ability to experience the

<sup>18</sup> We do not think that anybody would now still want to claim that the economies in these countries were actually *socialist* economies in the truest sense of the word, rather than state *capitalist* economies.

<sup>19</sup> Here Marxism also seems to be a victim of naturalism. As the critical transcendental realist approach in the philosophy of science convincingly shows, contrary to the naturalistic Marxist view, strict and general laws, rather than contingent tendencies are a rarity, if not an impossibility in social reality. For a discussion of this strain of realism also in a geographical context see Sayer (1984).

<sup>20</sup> In contrast to Marx, who described the ability to act instrumentally, to work (labour) as the characteristic attitude of humanity, it was Freud who pinned down the typical characteristic of mankind as its ability to communicative action (Habermas 1981, p. 342).

functional integration (the integration of the labourer in the production process) as if it were a conscious social (life-world) integration (Gorz 1989, p.62). The collective communication and decision-making should have adduced this identification of the individual with the collective. The "plan" was supposed to mirror the totality of the thus "rationally" elaborated intentions. In reality, however, in the communist countries of Eastern Europe this goal was never reached. In the course of centralisation and planification every *meaningful* context, especially also any meaningful *regional* context, was destroyed (Grabher 1992). The sheer proportions and complexity of the task made it impossible to the individual to experience the plan as a result of some form of meaningful collective and rational discourse<sup>21</sup>. In the same way as can be observed in parts of our technocratically oriented western economic system this leads to the hegemony of the "experts" as commission members and party leaders, or short: to the authority of the "state". In this alienating system world of total state authoritative co-ordination the belief and revolutionary enthusiasm had to compensate for the loss of access to the meaning and knowledge of the "collective" goals for life-world experience (Gorz 1990, p.64). Gorz compares this ascetic socialist morale with Max Weber's protestant ethic as the basis of capitalism (Weber 1988 [1904 and 1905]). "Puritanical asceticism was motivated by the belief that *God* willed this rational order of the world and saw in it His glorification, just as the socialist "heroes of labour" were motivated by the belief that this labour demanded of them by the "plan", mediated by the Party, was the instrument used by *history* to facilitate the triumph of universal reason" (Gorz 1989, p.65)<sup>22</sup>. This clearly also sheds light on the "a-rational" character of the state-capitalist system in many socialist countries in Eastern Europe. It lacked any communicative rationality and life-world integration it originally started out to bring back into the economy. Instead it followed the same capitalist aims, however with a different denominator. Accumulation and one-dimensional economic growth continued to be its main goals. What we observe in Eastern Europe and the USSR is the bankruptcy of a dogmatically rigidified ideology with the purpose of legitimising an emancipation-preventing, techno-bureaucratic governance in the framework of the one-dimensional totalitarian functional rationality of "real socialism". In the current of this downfall the *homo oeconomicus marxensis*, who still believed the historical "laws" to which, in Marxist views, the practical problem of determining (reasonable) economic action could be reduced, ultimately passed away and attempts at revival with orthodox means have remained futile (Ulrich 1987, pp.352-353).

<sup>21</sup> Also Hayek (1983) noticed that the aspired bureaucratic collective communicative goal formation was constrained by the sheer size and complexity of modern globalised social relations. He therefore posed the hypothesis that only through individualisation in the framework of system integration would the extended society be able to emerge in the history of our civilisation, although communicative reasoning would continue to be of importance in small-scale (regional?) communities as parts of the overall system.

<sup>22</sup> It is often argued that one of the "inevitable" reasons for the capitalist crisis is the fading of this original Weberian "protestant" work ethic. At other occasions we, however, have argued that this protestant work ethic actually comprises two separate dimensions of which probably only labour morale is fading and in contrast to that vocational ethic is increasingly becoming more important in the framework of a communicatively impregnated concept of flexible specialisation. This tendency seems to represent a "language turn" in the development of capitalist societies which Marxism was not able to anticipate. See also Ernste (1989) and Jaeger and Ernste (1989).

Substituting this system with the also one-dimensional and communicative emancipation renouncing system rationality of the pure "free" market system is certainly not going to contribute to the development of a new "peripheral" growth territory. This by no means implies no markets are needed. On the contrary, one certainly needs more markets in Eastern European economies, but at the same time we also need to recognise the primacy of communicative rationality by explicitly introducing a second dimension representing exactly these creative, innovative system-transforming capabilities which are responsible for inducing growth of the kind needed in the life-world of the Eastern part of Europe.

Strategies towards such a more two-dimensionally rationalised economy have been suggested in the past by, for example, Ota Šik (1972, 1979, 1992), Milovan Djilas (1957), Rudolf Bahro (1977) and Andrew Shonfield (1984) and were recently in demand again in the context of the present restructuring of the Eastern European economies (Lutz 1990). The possibility of such a "Third Way" s very often misunderstood as the *de facto* real economic system, irrespective if it concerns our Western "free market" system or the communist centrally planned "socialist" system. In the real socialism of many Eastern European countries it was very often not recognised that a much more liberal version of such a system might be possible which could even be more "socialist" than the *de facto* socialism of yesterday. In real capitalism in the same way, it is often not recognised that the capitalist success probably has much more to do with modern atypical, non-free-market aspects of the real economy (as shown in the first section of this paper) than the theory of capitalism would like us to believe. What is often defied as the third way in many respects actually has much in common with certain aspects of what is emerging through the current transformation of the real economy itself. If we wish to call this transformed and transforming version "capitalism" then there is certainly no (third) way beyond "capitalism".

Many of the theoretic foundations of this third way however still do not capture the whole issue at stake. The central problem of our current economic system lies in how to handle external effects of the economic *system* on the social and natural life-world (see also the second section of this paper). To reduce or solve these problems the economic system, regardless of whether it is centrally (authoritatively) planned or based on the rules of a "free" market, has to be opened for new life-world demands and goals. The communicative rationality reducing systemic categories, for example, the classical economic imperative of exclusive property, has to be and is being revised. The extreme form of exclusive property comprising all possible dispositional rights and therefore also legitimising the suspension of any liability to justification in the face of any external effects<sup>23</sup> has to be opened for appeals from non-owners as far as they are affected by the private or collective use of these property rights. This process of *neutralisation* of societal relevant property (see also Šik 1992) is nothing new and has been taking place for a long time already, as can be observed for example in the tendency towards a separation of property and dispositional power between the owners of production capital and the management of the production processes, and in the tendency of increasing state intervention and regulation. "The historical process of the advancing factual neutralisation of dispositional rights based on property rights apparently asserts itself against all exclusive property structures - for long time already the question is not anymore, *whether* a neutralisation of capital takes

<sup>23</sup> Property in this sense therefore is a systemic instrument to forestall (cut short) any communicative relation between the owner and non-owner (Ulrich 1987, p.375).

place or not, but rather merely *how* it will take place [...]” (Ulrich 1987, p.383)<sup>24</sup>. In the socialist states a neutralisation of capital was expected to be achieved by substituting private property by (collective) state property; this however, does not change the fact that in reality in these states the people affected in their life-world did not achieve any right of coordination or co-determination. With the uncritical introduction of exclusive property rights in Eastern Europe (see also Blommestein and Marrese 1991) the economy in these states might fall back into a deadlock situation instead of finding its way to the economic dynamism based on the local innovative and creative potentials. Under the impression of a still very economic (materialistic) view many of the advocates of a third way have confined their recipes for a neutralisation of capital to the range of directly affected employees, excluding any other subject potentially affected by the economic actions. It therefore still creates a dualism of insiders and outsiders. In the case of flexible specialisation this is not much different. Still, flexible specialisation, within the existing macro-economic and legal order offers a broader range of internal and external relationship open or potentially open to a communicative rationality. Especially producer-client, producer-supplier, producer-producer, and producer-state (or -local government) relationships are now also embedded in and communicatively legitimised by this thick tissue of (regional) social relations. The flexible specialisation in Eastern Europe does not have to be a fiction is already observed in certain parts of the former GDR (the Economist 1991). In combination with a decentralised and democratised state policy (including regional policy, see also Ernste 1991) based on the principle of subsidiarity (Sabel 1989a) and in combination with more open legal corporate (and corporatist) constitutions or other legal and organisational forms supporting the communicative innovative abilities of the individual/collective economic actor, it might very well be that we have some important clues in our hands with which we can satisfactorily explain the current phenomena of peripheral growth and restructuration and direct these processes towards a more sustainable and human regional economic development regardless of the name we give this “Way”.

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<sup>24</sup> The property rights approach in the framework of neo-classical economic theory tries to counter these tendencies by attempting to re-internalise all external effects or in other words: to privatise all public goods, although in face of the increasing ecological scarcity of natural and identity-bringing resources, and therefore the increase of non-private goods, this seems an almost impossible venture. Also privatisation does not solve the problem linked with the exclusivity of pure private property, as independent from its distribution it remains exclusive *vis-a-vis* the externally affected.



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Huib Ernste

## FLEXIBILNÁ ŠPECIALIZÁCIA A REGIONÁLNA POLITIKA

V 80-tych rokoch sa do bádania o regionálnom rozvoji a regionálnej politike intenzívne vtlačajú nové koncepty, nové prístupy a alternatívne pohľady. Je to výsledok čiastočnej neschopnosti prevládajúcich teoretických konštrukcií pri vysvetľovaní súčasných lokačných tendencií priemyslu, ktorý sa stáva elastickým, flexibilným. V dôsledku toho sa neo-klasická teória priestorového ekonomického rozvoja modifikuje. Tomuto procesu je venovaná úvodná časť príspevku.

Ďalšia časť podáva charakteristiku a reinterpretáciu (v zmysle teórií Giddensa a Habermasa) relatívne nového pojmu, flexibilnej špecializácie, ktorý je centrálnym z hľadiska štúdie. Jeho genéza súvisí so snahou podchytenia hlavných charakteristických rysov nových stratégií a správania sa priemyselných korporácií. Pojem je založený na decentralizovaných sieťach a prepojeniach špecializovaných a flexibilných nezávislých firiem, ktoré sa vyznačujú vysokým stupňom invenčnosti. Autor stručne prezentuje novú stratégiu korporáčných spoločností.

V regionálnej politike je pojem flexibilnej špecializácie založený na väčšom rozsahu aktívnej, podpornej a kordinačnej úlohy vlády. Predkladaná modelová analýza švajčiarskej federálnej regionálnej politiky riešiacej problémy priemyslu hodínok v oblasti Jura, sa použila na zobrazenie špecifického vzájomného vzťahu medzi flexibilnou špecializáciou a špecifickými formami vládnej účasti v regionálnom rozvoji.

Regionálna politika prešla vo Švajčiarsku zmenami. Hlavná pozornosť sa už nesústreďuje na budovanie miestnej infraštruktúry a riešenia otázok (ne)zamestnanosti. Regionálna politika je v súčasnosti orientovaná na inováciu v spojení s ďalším vzdelávaním a na podporu lokálnych procesov reštrukturalizácie. Zasadzuje sa skôr o preventívnu a dlhodobú štruktúrnú politiku, ktorá by presadzovala stimulovanie rozvoja miestnych iniciatív.

Záver príspevku tvoria úvahy o možnosti aplikovania "tretej cesty" rozvoja, ktorú možno vo všeobecnosti predstaviť ako snahu o trvalo udržateľnejší a humánnejší ekonomický rozvoj regiónov, pre bývalé štáty socialistického bloku.

Obr.1 Dualita štruktúry.

Obr.2 Sféry sociálnej a systémovej integrácie.

Tab.1 Dvojrozmerná koncepcia organizačného riadenia.

Tab.2 Príčiny slepej uličky inovačných aktivít vo švajčiarskom priemysle hodín 70. rokov 20. storočia.

Tab.3 Zmena paradigmy v regionálnej politike Švajčiarska.