In 1959, when their chief prophet, the British socialist G D H Cole died, associationalist ideas looked dead too. The future still belonged to big corporations, large-scale mass production and efficient managerialism. National economic management would ensure steady growth, secure in an international regime of fixed exchange rates and free trade. The dominant logic of industrial organisation was standardised mass production, utilising capital-intensive special purpose machinery and predominantly unskilled or semi-skilled workers to produce long runs of standardised goods. Manual workers enjoyed in the main low autonomy and identified but little with the enterprise or its goals. The archetypical modern industrial employee was the alienated assembly-line worker. Mass production conferred competitive advantage on the large corporation that could fully exploit economies of scale and acquire a sufficient share of the market so as to be invulnerable to competition from all but a few comparable firms.

This world was shattered in the early 1970s. At the level of the international economy, four major changes occurred at an accelerating rate from the late 1960s onwards, and had become

Large hierarchical mass-production firms are obsolete, according to PAUL HIRST. We need a new and more flexible model to replace them—and to create a true 'civil society'.
well-established by the 1980s.

- The stable and fixed exchange rates that were the primary object of international monetary policy in the Bretton Woods system broke down when the US dollar ceased to be convertible into gold in 1972, and, therefore, could no longer act as the linchpin of the system. The result was to promote the internationalisation of currency markets and intensify speculative dealing in them, leading to volatility and uncertainty in exchange rates.

- Financial deregulation in the 1980s strongly reinforced the trend toward the internationalisation and interlinking of the major equity markets—London, New York and Tokyo are linked by continuous interactive trading and the exchanges are vulnerable to rapid movements of large volumes of footloose capital.

- Supra-national economic and trading blocs—the two most important being the European Community and NAFTA (including the USA, Canada and Mexico)—were formed.

- The volume of trade in manufactured goods between the advanced industrial economies dramatically increased. Most markets for major industrial products are now international and major industrial economies now both export and import significant proportions of such goods, whereas before the 1960s home-sourcing was dominant and export markets between the major industrial nations were specialised.

The result of these developments has been a rapid change in the nature of competitive pressures and the forms of industrial organisation that are appropriate to respond to them. Growth in the international economy has become more volatile and uncertain. Markets for manufactured goods are now internationalised, less homogenous and less predictable, and firms are confronted with changing patterns of demand on a world scale and the complex differentiation of local markets. This has dramatically undercut the previously dominant company strategies of mass production for steadily growing and standardised mass markets. Hence it has been more difficult for firms to exploit long runs or to enjoy major economies of scale in manufacturing.

The most obvious consequence of these developments since the 1970s is that Keynesian strategies for national economic management have failed to maintain their effectiveness in the face of both the internationalisation of the main macroeconomic variables and their increasing volatility. Another obvious consequence is that a centralised national industrial policy that aims to promote industrial concentration in the interests of productive efficiency in exploiting the advantages of economies of scale is also less and less effective. Building national champions has less and less rationality, as the processes of competition become more diverse and favour different types of firms. The same problems affect a policy of 'picking winners', of national policy makers determining the technologies of the future and mobilising both R&D resources and major firms to meet them. Technologies are less certain and more diverse, and the errors of a centralised industrial policy can magnify those of misjudgment on the part of firms.

The result has been a series of major changes in both public policy and economic organisation, as states and firms have both had to adapt to new forms of production, responding to seeking strategies that cope with uncertain and turbulent markets. Public governance of the economy is by no means entirely defeated by such changes; rather, adaptive advantage has shifted to new institutions and forms of economic management. There have been major changes in forms of organisation and policy in the post-1973 period.

The first is a shift from 'Fordist' standardised mass production to new manufacturing strategies that emphasise productive flexibility—I shall use Michael Piore and Charles Sabel's concept of 'flexible specialisation' to describe these changes in preference to the variety of other labels on offer. Flexible specialisation is production for changing and differentiated markets, that require diverse quantities of varied goods over relatively short periods of time. It can be defined as the production of a changing range of customised or semi-customised goods by broadly-skilled workers with a substantial measure of autonomy using general-purpose machinery. The production process can adapt rapidly to different compositions of output through the skills of its workers and the responsiveness of its management structure.

Many firms have had to learn the consequences of this shift in the condition of effective competition the hard way, and the larger and the more committed they have been to large-scale standardised production the more difficult it has been for them to adapt. Firms like General Motors in the USA have tried to introduce elements of flexibility into their lines and product ranges, to win deals for more flexible working patterns with unions, and to flatten their management hierarchies to make them more responsive, laying off whole levels of middle management and routine administration.

Small and medium-sized firms, far from being confined to marginal niches or merely being the subcontractors of the subsidiaries of larger ones, have taken on a new lease of life in these changed conditions. In many sectors they can exploit significant niche markets or product areas unsuitable to large firms, however flexible and diversified the latter may be.

Such firms are most effective and competitive when they are to be found in industrial districts—
that is, constellations of firms in the same or related or complementary industries that typically share a common regional location. Such districts are highly diverse in their organisation but the most effective ones are those where firms have some ongoing collective and co-operative form of organisation, and where that organisation enters into partnership with a public body. Industrial districts provide firms with the equivalents of economies of scale in the provision of many key inputs and capital goods.

Industrial districts and the scale-mirroring advantages of collective services show that social governance of the economy has not collapsed, but that it has shifted in emphasis from national management of macroeconomic aggregates to the regional level and to the orchestration of cooperation and the provision of facilities by regional public agencies. Regional government has grown in salience partly because industrial districts tend to be clustered in this way, but also because this level of government has certain definite advantages in the new economic situation. Regional governments are of a scale where it is more possible for them to know in some detail the capacities of local industries and firms; they can develop, in Alfred Marshall’s words, an ‘intimate knowledge’ of what they most regulate and sustain. They can both make well-informed decisions and seek consent from those prominent members of local firms and trade association leaders known to them. Regional governments also tend to be concerned with the success of local industry, with the pragmatic ends of local wealth and local employment, far more than with the ideological goals that national governments or major interest organisations frequently pursue.

The nation state, however, is far from losing all capacity in economic governance. Nation states remain political communities, and many have and will retain extensive powers to influence and sustain economic actors within their territories. Even within a strongly developed trade bloc like the EC, national states will have key economic integrative functions and they will retain military, cultural and legal functions and powers that are specific to them and give them certain capacities of economic intervention and regulation and that both the trade bloc and the region lack. Even if the technical powers of national economic management have declined with the internationalisation of key variables, the political role of government is still important, but as the facilitator and orchestrator of commitments by economic actors. The national state remains effective if it can draw upon and reinforce bases of co-operation and consensus among social actors. The national state has three key functions in this respect:

* It must construct and sustain a distribu-

**Organised labour has to accept responsibility in wage bargaining**

• Such a coalition will only be sustained if the state gives ongoing and active attention to another function, the orchestration of social consensus. Such coalitions can only be sustained in a collaborative political culture in which the major organised interests accept both the need to cooperate and the primacy of the nation, that they view the nation as a community of fate in which they share success or failure. Consensus does not imply the absence of conflicts of interest, rather that a balance be struck between co-operation and competition, and that the national state acts as a medium wherein specific resource allocation mechanisms, such as the system of wage determination and the operation of capital markets are able to operate effectively.

• The national state needs to achieve an effective distribution of its fiscal resources and its regulatory activities between the national, regional and local levels of government. Those national states are most effective that can give autonomy to and sustain the kind of regional governments that promote local industry. National states are thus effective when they are either the constitutional architects of decentralisation or where they at least tolerate a de facto federalism in economic governance.

Organised labour has the strongest interest in continuing and in promoting such consensus policies at national level. Labour is collectively less mobile than capital and must regard its national situations as a community of fate. Thus where organised labour is cohesive enough and can adopt the appropriate policies of restraint in its demands, it can offer the conditions for an ongoing pact with employers. Where employers have the minimum of solidarity and the national commitment to respond, then the conditions are created for an effective economic partnership of the major social interests. Organised labor has to accept responsibility in wage bargaining, a commitment to improve productivity and tax levels on wages high enough to support infrastructure spending. These commitments are difficult to sustain on the part of organised labour, even where a strong social democratic tradition and the inheritance of the appropriate structure of industrial relations institutions makes this possible. Effective corporatist bargaining continues to be a means of achieving economic stabilisation in a post-keynesian period, but it is exceedingly fragile, subject to default by self-interested sections of business and workers alike.
The combination of increasingly socially fragmented but geographically localised labour and internationally footloose capital does not bode well for national-level corporatist economic governance. One cannot comfortably rely on exploiting existing legacies of solidarity and social democratic representation to offer employers a responsible workforce, a bargain they cannot refuse. The way has to be found to a new system of national interest representation, one that is differentiated enough to be inclusive of the more diverse economic interests in modern society and yet that is cohesive enough to promote co-operation rather than self-seeking conflict and lobbying. A new kind of corporatist concertation might be based firstly on processes of co-operation at regional level and secondly on the bargaining of regional and industry representatives at national level. This would be different from the present system where these industries and regions are not represented separately but through the interests of the participants in them as either employer or worker.

Associative structures thus offer a way forward in co-ordination through corporate social governance. The spread of co-operative and mutual ownership would tend to reduce the current gap between the wage worker, who sees the firm as a mere means to earn a living, and the manager, who acts as a steward of external providers of capital. Both would have distinct positions but common interests in an ongoing, self-governing association. Such forms of ownership would also help to facilitate the regional collaboration of firms and public-private partnerships. Labour would thus be united with the enterprise and capital would be rooted in the locality, rather than vanishing into the internalised market. New forms of capital made possible through co-operative and mutual ownership of enterprises and new types of financial institutions, such as regional industrial savings banks or industrial credit unions, would mean that capital funds would tend to be recycled regionally and invested in local work and wealth. An economy in which mutual institutions predominated would tend to localise basic capital and, hence, require less regional redistribution in the long run, because output and employment would be more evenly distributed between regions.

The aim of an associative reform process would be to move toward an economy in which small- and medium-sized enterprises are more salient than at present, where ownership is firmly rooted within a locality, where capital is predominantly raised within the region, and where collective services and economic regulation are provided by public-private partnerships between trade associations and the regional government. Smaller enterprises are more easily subjected to democratic governance by their own members and community representatives. The argument here is not against large-scale per se, neither claiming that 'small is beautiful', nor holding that local relations are inherently less alienating than long-distance or international ones. Small enterprises can be viciously exploitative and authoritarian, as any half observant visitor to a sweatshop will testify. The local can be the merely provincial. Sometimes, moreover, the large-scale is necessary.

The reason for decentralisation, in both state economic management and the structures of firms, is that this makes for both more informed and more accountable decision making. If the future belongs to quality, in both the products and in the lives skilled and individuated economic agents demand, then it can only be had by intimate knowledge of the processes whereby products are made and of the people who produce them. Management that lives by accounting data and the short-term is less and less effective in the competitive business of selling goods. It remains rife in sectors where service ought to be the primary goal—in public health, education and welfare agencies.

The concern for quality is in essence the belief that firms will only prosper by offering a genuine service through the goods they sell. Japanese management in the most successful companies does believe in offering service, and it has managed to get large enterprises to behave like small ones. In part this is because these enterprises do depend on small ones. Major Japanese companies have been able to reduce inventories through 'just-in-time' sourcing of components and have been able to enter into partnerships with allied firms to develop a continuous upgrading of components. This has been achieved by developing an ongoing social relationship with suppliers through relational sub-contractors. This is a system in which a supplier by offering service to the bigger firm is rewarded by an ongoing relationship based on trust, where the supplier will receive information, advice and even capital investment to meet the demands of quality. That relationship is complex, open-ended and not 'transparent'; rather it is based on the exchange of knowledge through trust.

In countries like Britain, the US and Australia, of course, these sorts of relationships have developed only sporadically, if at all, and far-reaching regeneration is desperately needed. The most obvious kind of regeneration not to proceed with in this context is dirigiste central government industrial policy to be able to 'pick winners' with the aid of the country's big firms. The government ought to facilitate local economic action by appropriate permissive laws and by assistance of an appropriate kind:
associative structures are in line with major changes in economic organisation, which favour quality products and skilled workers with some autonomy. Such changes mean that associationalism is a social route to economic efficiency, just as flexible specialisation is an organisational route to industrial efficiency.

At the same time, the danger of an international economy increasingly dominated by major hierarchically-governed transnational corporations is not inconceivable; were such an economy to develop, then effective regulation and governance of markets by regions or nations would become impossible. Such global companies would try to square their top-down authority with involvement by, and identification for, their own members, particularly as all operations could not be run from a global head office. Firms would try to compensate for the effects of markets within their own structures, but would leave all without to the mercy of largely unregulated market competition. Governments would become mere municipalities providing local services. Associationalism offers a coherent answer to such problems and explains how we can compensate for the relative decline of the capacities of national economic management and, at the same time, preserve the community relationships that people continue unreservedly to desire. An associative economy would encourage people to set up in business for themselves, as self-employed artisans or traders, or in very small firms (up to ten employees). It would make capital easier to obtain for the small firm or partnership, provided employees were encouraged to join in through co-ownership schemes and participating management rules. Such a society would be attractive to those who do not like to be regimented, and quite unlike schemes built upon compulsory ‘participation’ in large enterprises under the illusory rhetoric of ‘workers’ control’.

An economy in which associative forms of organisation came to predominate would systematise those processes of public-private cooperation and co-ordination that already exist in the best-organised industrial districts and also generalise them across the society. The wider economy would gain all the benefits of regulatory decentralisation and the trust-based relationships characteristic of such well-governed districts. But the associative democratic basis of such economic institutions would add something else, the organisational route to industrial efficiency.

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be ample scope for different types of firms and different types of local public-private relations. The result would be to diffuse and decentralise the interests that lead to conflict. Civil society would be more open-textured and less dominated than it is now by big companies, big unions, and their respective political organisations. The result of such diffusion would be to make collaboration between enterprises and the public power less problematic, and, therefore, to ensure an ongoing dialogue between them.

There is no one best model of how to govern an industrial district, but there are some lessons that can be learned from existing districts. The aim of an industrial public sphere must be to concretise that industrial atmosphere that Alfred Marshall found the moving force of industrial districts like South East Lancashire in his *Industry and Trade* (1920). An industrial public sphere is an open-textured set of interconnecting networks and institutions to which all economic actors concerned are free to contribute. It is more general than specific contractual or co-operative relationships between firms, that may be closed in access for mutual advantage, or the provision of services by a public authority, which may involve some element of administrative discretion. It provides the context for more specific co-ordinative governance through the provision of collective services, local sources of investment finance, activities organised by trade associations and labour unions, and ongoing partnerships between firms. It requires either a sponsor or an obvious point of constellation between networks and activities. At the most formal that might be a corporatist forum, a regional economic chamber, underwritten by the regional government, and into which more local or industry-specific bodies channel their own networks and forms.

A region linked in this way has a centre in which the shape of the local economy and its problems can be discussed. Discussion can lead to local legislation, to public provision or coordinated action. An industrial public sphere turns a district from a series of co-present firms and networks in a district into a body capable of prevision and remedial action. It can mobilise support for the public financing of industry intelligence, market research and collective R&D. It would make the economies of regions resilient and tenacious, organised bodies capable of responding to new competitive pressures and preventing decline through remedial action. A public sphere is not an administrative machine, nor is it a state agency. It is neither public nor private and, above all, it is a means for circulating information and a forum for discussion.

Regional economic governance will work for certain dimensions of policy but not for all. Hence the need for a distribution of governance func-

— "In such a civil society the blurring of the public-private division does not lead to greater state compulsion."

PAUL HIRST is professor of social theory at Birkbeck College, University of London. This is a greatly edited extract from his *Associative Democracy* (Polity Press, forthcoming).