Chapter 1
The Public and Private Sectors

The nature of partnership

In this chapter the nature of the relationship between public and private sectors is explored. State and community power were the subjects of a protracted debate in the 1990s as the implications of the Conservative government's policies of deregulation and privatisation were examined. The election of the Labour government in 1997 also attracted comments but these have been directed more at the practicalities of policy implementation including public–private partnerships. This chapter examines arguments concerning the interface of the state and the private sector, which were made by many commentators throughout the 1990s and the community power debate of the same period. This evolves into the practical implementation of policy by the incumbent Labour administration.

Procurement of public sector facilities to provide public goods increasingly involves the private sector through the private finance initiative (PFI), which is dealt with in detail in Chapter 4. Public goods are usually considered to have three main characteristics (Sloman 1992):

1. In a free market the private sector would underproduce a good or not produce it at all.
2. The consumption of a good by one person does not prevent others from enjoying it.
3. It is not possible to provide a good to one person without it being available for others to enjoy.

Public goods may therefore encompass bridges, national health hospitals, government buildings of all types, law courts and other facilities of a public nature. Although the free market would not provide the goods, the government increasingly involves private companies in their provision through the PFI. The PFI is a means of procurement that involves the private sector (typically) in financing, constructing and managing public facilities in return for a yearly payment by the public sector that will use the building. The private and public sectors can therefore be said to be in partnership. Both have incentives and responsibilities and the distinction between the two seems clear. On occasions, however, this is not quite so clear cut. For example, Local Improvement Finance Trust (LIFT) involves agencies of the public sector investing directly in the PFI consortium, which will provide health care facilities. It is difficult in these circumstances to clearly define where the public sector ends and the private sector begins. The lines demarcating the state and state agencies become blurred, and it is therefore important to be able to define the roles and power of the actors in partnerships.

Some commentators see the public sector, in the role of sovereign states, as powerless in the face of global forces (Ohmae 1995). It is believed that transnational and multinational companies will invest in those countries that maintain low corporate taxation and weak regulatory policies. The footloose nature of unregulated capital is believed to negate the traditional power of the state. However, property partnerships are designed and contracted on a micro basis and require commitment from all parties, at least until the buildings and facilities are completed when refinancing can take place.

The influence of global forces on public sector power is further considered in the following section.

The public sector

The public sector is usually taken to refer to a range of organisations collectively seen as part of 'the state'. These will include government departments such as the Treasury, the Home Office, County and District Councils and the Regional Development Agencies, together with other agencies concerned with land management and development, such as the Welsh Development Agency. Property partnerships may involve arrangements by any, and more, of these organisations with the private sector. Some Quasi Autonomous Non-Governmental Organisations (QUANGOs) may be difficult to categorise as part of the state although their functions may be considered to be part of the public sector. It is important to establish a clear definition of what exactly constitutes the public sector and what distinguishes it from the private sector before the relationship between public and private sectors can be discussed.

The state can be defined in the way it functions or by the means that it uses to fulfil its functions. The German historian Max Weber (1864–1920) believed that the state could only be defined as something that could legitimately use the means of violence to achieve its ends. Pierson (1996) helpfully lists what he regards as the most important features of the mechanisms of the modern state. These are as follows:

1. control of the means of violence
2. territoriality

3. sovereignty
4. constitutionality
5. impersonal power
6. the public bureaucracy
7. authority/legitimacy
8. citizenship
9. taxation

Of these, the way in which the state uses the public bureaucracy and impersonal power are particularly relevant when property partnerships are considered.

Other commentators see the state more directly in terms of functions. Greenberg (1990) collectively refers to the bureaucracy, the government, and the body of law, precedent and custom as 'the rules of the game', whereas Skocpol (1985) emphasises the importance of organisations in defining the state: 'administrative, legal, extractive and coercive organisations are the core of any state'. Dunleavy and O'Leary (1987) distinguish organisational definitions of the state from functional ones. They see the latter taking two forms, either defining the state in terms of goals or by consequences. They define the state as 'that set of institutions which carries out particular goals, purposes or objectives' and they extend this further by defining 'any organisation whose goals or purposes overlap with ''state functions'' automatically becomes part of the state'. This is interesting as it proposes a definition based on function, which may encompass utility companies, for example, as part of the state.

Although some commentators see the state merging into the private sector on the basis of function, most see a distinct identity for the state as a form of centralised power over a geographical area. David Held (1995) extends this concept to a number of other characteristics of the state. A monopoly of the means of violence, an impersonal structure of power and an acceptance by citizens of the legitimacy of the state are all seen as defining characteristics. The idea of legitimacy is closely linked to that of sovereignty defined by Held as 'a determinate structure of laws and institutions with a life and standing of its own'. In this context, the power of the state in comparison with private corporations can be tested by considering to what extent society is influenced by corporations that do not profess the legitimacy accorded to the state by public consent.

The principle of consent is important for it provides one method of separating state activity from that of a private corporation. Cole *et al.* (1993) also considers the principle of consent and sees the state representing the 'logical development' of this principle. He distinguishes the principle of the despotic state and the democratic state with the former justifying its legitimacy on the basis of the 'metaphysical conception of real wills whereas the latter has legitimacy resting on the actual wills of the ruled'. The validity of this argument is perhaps doubtful when considered in the circumstances of modern Western democracies with low turnouts and effective choice limited to one of two parties. Poggi (1990) takes the argument a stage further when he considers the sovereignty of the state, which is prepared to claim 'and if necessary is willing to prove, that it owes to no other power its control over the population in question; that it responds to no other organisation for the modalities and the outcomes of that control. It exercises that control on its own account activating its own resources, unconditionally, does not derive or share it with any other reality'. This extreme view of the power of the modern state can be compared with the reality of the 'hollowed out' state of the current millennium. This is further dealt with under the heading 'State and private sector power'.

Cole sees the state in different terms and puts forward the idea that the state is not the unlimited source of power but just another association, together with many others in society. He also distinguishes the concepts of nation and state and implies that nation is a subjective concept derived from the perception, habits and beliefs of the population. 'A nation may be a community but it cannot be, though it may possess a state. A nation is not an association; a state is'.

In the case of property partnerships, the relationship between state and private organisations is given legal weight by means of various contracts, usually a development agreement and a ground lease. In the case of arrangements where services are to be performed, such as with contracts under the PFI, the contract takes the form of a service agreement. The contracting parties are thus legally distinct although some commentators may see them as functionally indistinct. Usually, the state freehold ownership of land and buildings is combined with private sector expertise and finance to create new buildings and facilities. In this way the state, or the state agency, is distinctive. On a wider basis, the state underpins the market economy and allows it to function by maintaining the rule of law. John Kay sees the function of the state changing from waging war, adjudicating disputes and levying taxes to the provision of goods and services such as education, transport infrastructure, collection of rubbish and provision of essential services (Kay 1994). The present government increasingly involves the private sector in providing these functions in partnership (however defined) with the state or state agencies. This is not inconsistent with the state maintaining supreme power justified by democratic consent as this is necessary for the state to provide the rule of law for its citizens.

A further distinctive feature of state activity is the power of the state to regulate the private sector where public goods are provided and to levy taxation to provide public goods. Norman Barry (2004) identifies two further activities that define the function of the state – the way in which the state deals with a form of market failure in the provision of public goods and treatment of externalities. In the provision of public goods, the state is active and Barry identifies two features that define a public good: 'it is non-rival in consumption and non-payers cannot be excluded from its enjoyment'. Property partnership schemes are often devised to supply public goods through private means. Where the action of a private or public agency results in adverse effects to a third party, and the third party is not compensated by the original agency, there is said to be a negative externality and the state is charged with taking action to correct the problem. Dunleavy and O'Leary define the nature and activities of the functional state in a useful summary that can be related to the state's activities in property partnerships:

1. The state is a recognisably separate institution or a set of institutions so differentiated from the rest of society as to create identifiable public and private spheres.
2. The state is sovereign, or is the supreme power, within its territory, and by definition, the ultimate authority for all law, that is, binding rules supported by coercive sanctions. Public law is made by state officials and backed by a formal monopoly of force.
3. The state's sovereignty extends to all the individuals within a given territory and applies equally even to those in formal positions of government or rule making. Thus, sovereignty is distinct from the personnel who at any given time occupy a particular role within the state.
4. The modern state's personnel are mostly recruited and trained for management in a bureaucratic manner.
5. The state has the capacity to extract monetary revenues (taxation) to finance its activities from its subject population (Dunleavy and O'Leary, 1987, p. 2).

Many of the terms used above require further discussion and perhaps the most important one is the urban power of the state in terms of its nature, the way in which it is exercised, and how it relates to the power of the private sector.

The state and private sector power

In discussing state power it is appropriate to commence with Hobbes' *Leviathan*. Hobbes wrote his enduring account of state power in the mid-seventeenth century and in writing it, he was much influenced by his views of the English civil war. Hobbes' view of the state is of an entity, comprising the citizens of the state, which has supreme power and is able to order stable relations among all citizens of the state. The idea that the state actually comprises its citizens does not feature in Hobbes' work. It was left to John Locke to explain what modern man would recognise as democratic principles. '. . . supreme power was the inalienable right of the people; that governmental supremacy was a delegated supremacy held on trust; that government enjoyed full political authority so long as this trust was sustained; and that a government's legitimacy or right to rule could be withdrawn if the people judged this necessary and appropriate, that is, if the rights of individuals and the ends of society were systematically flouted' (Held 1995, p. 44).

Where the state contracts with the private sector to produce buildings and facilities for public use there is clearly a power relationship. Dowding (1996) identifies two types of power, which he calls 'outcome' power and 'social' power. The former is the ability to bring about or help to bring about outcomes, whereas the latter implies a change in the incentive structure of another party to bring about outcomes. In terms of property partnerships where a District Council owns the freehold interest in a site that it wants to see developed, it can be said that the council has the outcome power to legally make the land available by way of a ground lease. It also has the social power to frame the development agreement in such a way as to produce a scheme that accords with the planning brief and carries public benefits by incentivising the developer. The two types of power considered here are sometimes referred to as *power to* and *power over*.

The two types of power considered above can be further divided into the way in which power is exercised and by whom. Theories of social and business power can be categorised under three main headings: elitism, pluralism and regime theory. Elitism derives from the classical world and proposes a hierarchical view of social power, where a small privileged group of people rule a society comprising persons with little power 'to' or power 'over'. It therefore owes much to the Greek model, particularly the Athenian state, where a sizeable elite was involved with political matters. 'Athens in her great days governed and defended herself by the service of over 7,000 citizens, out of a total resident citizen population of about 40,000' (Barker 1967). Dahl (1957) takes a slightly different view and believes that the reality of ancient Greece was that only a small minority of citizens attended meetings of the assembly and it was the rich and powerful who held sway. This feature of Athenian politics strikes similarities with elitism but the relevance of the Greek model is seen to an even stronger extent with the normative views of Plato, who believed that democratic politics could only lead to a failure of social cohesion. His well-known belief in the value of rule by philosophers has common features with later elitist theories.

Harding (1995, p.35) identifies three positions that encapsulate the approach to elite theory. Firstly, the presence of a powerful elite may be regarded as the best way in which benefits to society may be realised. This pragmatic view can be argued on the basis of efficiency. Secondly, it may be possible to demonstrate that problems only appear when rule by a few is either resisted or overthrown. Thirdly, the elite rule may be regarded as a 'necessary evil' for society to function at all and this is called the 'technocratic' approach by Harding. The maintenance of the elite is seen to be the only way in which modern industrialised society can be organised. Power is therefore concentrated in the hands of the few who occupy commanding positions within society's leading bureaucracies.

Harding believes that the normative approach adopted by the Italian theorists Mosca and Pareto can be regarded as truly elitist in the sense that elitism is seen as superior to other forms of rule. Dunleavy and O'Leary make a similar point when they describe the most important developments in elite theory commencing with the Italian school. 'Pareto defined an elite at its simplest as those individuals who have the highest indices of excellence in any particular activity, whether it be train-robbing, fishing, political science, or big business' (Dunleavy and O'Leary 1987, p. 136). Elite theory in the context of the modern industrial state therefore moves logically into urban politics and it is in the study of urban politics that Harding sees a further development that he calls critical elite theory. 'Critical elite theorists . . . see the "power elite" as neither natural nor desirable but as the worrying product of historical trends' (Harding 1995). In this analysis, it is the capacity to act, only available to those who have control over vast industrial or bureaucratic organisations, which is the important factor. Elitism is a fact of modern industrialised society.

The involvement of later elite theorists in urban politics opened up what Harding describes as 'a methodological can of worms' (Harding 1995). The application of empiricism was a departure from earlier elite theory, but serious problems were encountered with its application. As Dunleavy and O'Leary put it, 'A . . . fundamental problem for empirical work in the elite theory tradition is the difficulty of demonstrating that a power relationship exists' (Dunleavy and O'Leary 1987). One reaction of elite theorists to this problem was to adopt reputational analysis that sought to identify the reputations of supposedly powerful individuals. Those people who can be shown to be believed to have power can also be assumed to have power relationships in urban society. The most famous work was that of Hunter (1953) in his study of Atlanta where he identified a business-dominated elite, but this precipitated a sustained critique, mainly from pluralists, who criticised his methodological approach. Some commentators believed that he commenced his study with pre-formed ideas about where power would lie and only investigated the reputations of those people who fell into this pre-empted list. It was also believed that Hunter ignored the functional context in which power was assumed to be exercised because, in his analysis, power was concentrated on individuals outside of, for example, the jobs they might perform. A further, fairly obvious, point to make was that Hunter, in concentrating on reputation, had failed to prove that power was actually exercised in the way he stated.

The pluralist challenge to elite theory is given impetus by elite theorists attempting to empirically prove their theories by researching urban communities. Although there are other theoretical areas that are important, the community power debate has focused around the elitist and pluralist views and on whether either theory can be proved. Before considering the importance and influence of regime theory to the debate, it is necessary to consider the pluralist position.

David Judge (1995) defines pluralism, not necessarily within an urban context. Power is decentralised with many focus points; all groups in society are able to make themselves heard in some way; dispersion of power is normatively seen to be 'a good thing'; political outcomes will vary according to the myriad distributions of power, processes and actors; political power is exercised outside the accepted political institutions of liberal democracy; legitimate authority would result from interaction of interests rather than any interpretation of the 'general will'. Finally, the process is underpinned by the commitment of the actors to a system that is both uncertain and dispersed throughout society. The inference is that some power can be exercised by all groups in society and therefore no group will be powerless. In attempting to define the pluralist position, therefore, it appears imprecise in comparison with the definite statements of the elitists but, as many commentators have pointed out, pluralism comes to life when it is used to criticise other theories of community power. 'In fact, perhaps the central defining feature of pluralism is what it sets itself against. In this sense . . . it is no more than an anti theory' (Judge 1995).

One of the most important publications that address pluralism is Dahl's *Who Governs?* (1961). In this book, Dahl investigates positivistic and behaviourist theories and attempts to define the power structure in New Haven, particularly from the competing theories of oligarchy (elitist) versus polyarchy (pluralist). Positivists believe that all political statements are evidently logical, can be tested by empirical methods or are meaningless, in which case they cannot be researched. Behaviourism, which flows from positivism, concentrates on people's behaviour patterns, which can be observed and measured, rather than their covert incentives, which cannot be subject to scientific investigation. Dahl's approach first of all defines power as 'a successful attempt by A to get B to do something he would not otherwise do' (Dahl 1957). By investigating decision-making where there was a conflict of interests, Dahl seeks to define who is successful in either initiating or vetoing policy changes. He concludes that power is not exercised by a discrete ruling elite, but is disseminated throughout the community with different groups enjoying success at varying times and for varying reasons.

Dahl sees New Haven (Connecticut, USA), the subject of his research, changing from oligarchy to pluralism, but he also identifies a stratification in society where certain individuals are much more involved in political policy and action than the rest of the population. Dahl sees stratification from a number of standpoints. The political strata are 'relatively rational human beings', whereas in the apolitical strata choices are influenced by 'inertia habit, unexamined loyalties, personal attachments, emotions, transient impulses' (Dahl, 1961, p. 90). The apolitical strata are also seen to be uninformed with all this translating into a predictable lack of direct influence in politics. Dahl here seems to be approaching common ground with the elitists, but this is, in fact, not the case for he believes that the political stratum is easily penetrated by anyone with an interest in being involved. The incentive for this in terms of the political strata, Dahl believes, lies in the nature of the democratic system with politicians having a direct incentive to increase the strength of their coalitions and their political support.

In the urban context, some commentators see pluralism increasing as city size increases as in the studies of New York and New Haven (Judge 1995). In contrast, Dahl identifies a political apathy in New Haven. He sees New Haven's government being dominated by the 'various petty sovereignties that made up the official and unofficial government of New Haven' (Dahl 1961) and this system is underpinned by three factors: the indifference of the citizenry towards matters that did not immediately affect them; the fragmentation of political resources and the non-involvement of the Mayor that results in government agencies being largely autonomous. In contrast, the works of Thomas and Savitch (1991) identify a distinct growth in the number and power of political groups in cities. The result of this is to make cities virtually ungovernable with chaotic political systems. These views are not accepted by all commentators, but they are collectively known as *hyperpluralism* as they represent one extreme of the pluralist spectrum.

A feature of pluralist theory that is distinctive is cited by Dunleavy and O'Leary (1987) as the way in which pluralism ascribes far more importance to input politics than other theories. 'Pluralists insist that large size does not prevent modern nation-states from being effective polyarchies. Electoral accountability provides the binding chain' (Dunleavy and O'Leary 1987, pp. 23–24). Pluralism is, however, a theory with a wide base of application and can have a range of meanings. It does not even have to be shown that there is any distinct change of policy resulting from the influence of different groups in society. As Keith Dowding writes, 'I do not even need to persuade policy-makers to do what I want, as long as they have to take my views into account. As long as they are forced to hear "legitimate groups" and spend time and effort doing what they ask, then we have a pluralist system' (Dowding 1996).

Regime theory can be argued to have developed from pluralist research and shares much common ground with it. It is uncontroversial in the sense that it recognises a range of government institutions that are, to varying degrees, subject to some form of popular control. It also recognises the presence of an economy heavily, but not exclusively, influenced by private investment decisions. The essence of regime theory is that regimes are formed to ease the implementation of a range of policy outcomes that could not be accomplished autonomously either by government or business interests. Moreover, the true regime theorist recognises the long-lasting nature of regimes. Dowding sums up the nature of regimes succinctly, although he does not see regimes resulting from a conscious decision by certain actors, but from the 'systematic luck' of capitalists in which their interests fortunately coincide with those of ruling politicians. 'Regimes are coordinating devices which provide opportunities for bargaining with the different sides in controversies and, importantly, establish the parameters through which bargaining takes place' (Dowding 1996).

A criticism of regime theory is that it adds little to the study of urban politics as it is essentially nothing more than a further variant of pluralist theory. Clarence Stone addresses this in his study of Atlanta (Stone 1989), which is a cornerstone of regime theory. In this work, Stone writes about the systematic power of the business elite in forming a sustained regime with government so that policy could be implemented. Stone's often-quoted definition of a regime is 'an informal yet relatively stable group with access to institutional resources that enable it to have a sustained role in making governing decisions' (Stone 1989). The difference from Dowding's definition (Dowding 1996 quoted above) is significant in that Stone's regime comprises a (relatively) stable group and this emphasises the importance he places on its long-lasting nature. Dowding's view is clearly pluralist in that he uses the word 'bargaining' and implies that bargains will be struck between the myriad organisations envisaged by the pluralist model. The reference to setting parameters is important, however, and is a subject that is an important feature of regime theory.

Regime theory therefore has an essentially pragmatic focus in the sense that actors are assumed to realise that policies cannot be implemented unless cooperation is ensured among those who hold power in society. No one group can exercise enough control to implement policy on its own and regime theory here shows a distinct difference from elite theory, which assumes that the elite will possess power over society. Stone himself, in writing about Atlanta, emphasises the pragmatic nature of regime theory when he states, ‘What is at issue is not so much domination and subordination as a capacity to act and accomplish goals. The power struggle concerns not control and resistance, but gaining and fusing a capacity to act – power to, not power over’ (Stone 1989; also quoted in Stoker and Mossberger 1994).

The distinction between regime theorists and pluralists is sometimes blurred by the common ground between the two, notably the acceptance of the diffusion and changing nature of power in society. However, pluralists emphasise the ever-changing nature of the power relationship with governments ‘likely to respond to groups on the basis of their electoral power or the intensity of their preferences’ (Stoker and Mossberger 1994, p. 197). Regime theorists, in contrast, emphasise the tendency of powerful groups to form coalitions with others that are long lasting over a range of policy issues. There are strong differences between regime theorists and pluralists also in the way in which they perceive the nature of government. Pluralists and elitists emphasise the incentive for government to control society and this is backed up by the normative idea that if government is accessible to all, this is acceptable. In contrast, regime theorists see power as organised through coalitions so that certain outcomes may be achieved, although some common ground can be seen with elite and regime theories in terms of agenda setting.

Elite theorists recognise the capacity of elites to set agendas and regime theorists recognise similar features. ‘Regimes may also practice a politics of exclusion, seeking to ensure that certain interests are not provided with access to decision-making’ (Stoker and Mossberger 1994). Stone (1989), in reconsidering the work of Floyd Hunter (1953), believes that Hunter’s work has relevance in the study of regimes. Hunter’s argument falls into three areas. Firstly, power is formally divided between government and business; secondly, the policy setting role is a necessary function in society; and thirdly, the policy setting powers of major business actors (considered as ‘prestige’ figures) extend to the government and civic sectors.

Although Hunter did not use the term ‘pre-emptive power’, Stone believes that this concept ‘is embedded in his work’ (Stone 1989). Pre-emptive power, as defined by Stone, is ‘power as a capacity to occupy, hold, and make use of a strategic position’ (Stone 1989, p. 83). Hunter’s view is that the policy-making function is performed by those who hold a form of pre-emptive power and do not see this in terms of individual actors but in a more complex form. ‘Community context, a strategic role within that context, and complex entities – those are the ingredients for a pre-emptive power relationship’ (ibid.). Stone’s views of community power derive from Hunter’s work and also that of Bachrach and Baratz (1970) who first used the phrase ‘non-decision making’. Elites ‘expend their resources strategically by preventing unfriendly issues from gaining access to the decision making agenda’ (Stone 1989).

In developing Hunter’s and Bachrach and Baratz’s (1970) theories of power, Stone describes how policy-setting coalitions can maintain their power by controlling the agenda. Of itself, this activity generates resources to counter resistance and the only way forward for a challenging group is to construct an even more powerful coalition. Stone concedes that orthodox pluralists would point out that the incentive to challenge an established coalition is strengthened by the presence of pre-emptive power in the coalition. However, while acknowledging the merits of the pluralist argument, Stone emphasises the difficult task of challenging an established coalition: 'the challenge group must be able to bear the cost, not only of resistance, but also of bringing together a viable policy coalition'. The pluralist position is that power in society is diffused with large numbers of groups being able to influence the policy agenda. The elitist position does not challenge this view but contends that elites exist and dominate society to achieve their ends. In contrast, Stone's view of pre-emptive power developed from Hunter's work puts forward a different argument. Pre-emptive power has two main dimensions: 'the power advantage of holding a strategic position and . . . , the capacity to occupy that position'. Regime theory describes the setting up and maintenance of a regime as the most effective way for policy to be implemented, and the long-lasting nature of the regime operating across a range of initiatives is underpinned by the presence of pre-emptive power.

Regime theory has common themes with elements of the classic community power debate but has developed a discrete research base. Stoker and Mossberger (1994) offer a typology of urban regimes as a major part of this research. Types of regime are classified under three main headings: organic, instrumental and symbolic. 'The instrumental regime – is typified by Stone's description of Atlanta'. This type of regime is one which achieves goals that would be difficult to achieve by one actor. A regime is necessary to deliver results. The organic regime derives from a cohesive urban settlement with 'a tightly knit social fabric'. Although they do not quite say as much, this form of regime is described by Stoker and Mossberger as a pre-existing regime. It is therefore interesting, as it appears to be a regime that is not consciously formed by its members. Symbolic regimes are characteristic of cities in the process of change in governance and image. Stoker and Mossberger build on the general purpose of regimes by offering a classification of the mechanisms by which community action problems are solved. These are concerned with mobilising participation, the development of a common sense of purpose, the way in which interests come together in coalitions and the interface between regimes and the wider political environment.

Stoker and Mossberger regard their initial four categories as valuable only in very general ways. In illustrating and explaining their research, they identify a number of subtypes that can be seen in a practical sense. The focus is on the purpose for which the regime is formed and the authors describe a number of types of regime that seek to maintain the status quo. This is a departure from the usual way in which regimes are envisaged, for in this type the emphasis is on preventing change rather than affecting it. Similarly, exclusive regimes involve distinct groups (such as a certain class) maintaining the status quo (more accurately their status) by a rigid politics of exclusion. Traditional regimes are also proposed as a type that derives from 'the maintenance of prestige as defined by the city's position in a regional hierarchy' (Stoker and Mossberger 1994). These can all be recognised as passive regimes in comparison with regimes that are formed to achieve an identifiable positive goal. The project realisation regime is an example of this type, where the regime functions to achieve a particular short-term goal. The obvious example would be in the field of property development and the attraction of investment into an urban area.

Further classification is offered in the ways in which regimes form and maintain a common sense of purpose, either by the use of selective incentives (offering distinct rewards to members of the regime), tradition and social cohesion (deriving from shared civic community and pride) or by the strategic use of symbols where political language is used to maintain support even though concrete action may be lacking. The quality of the regime that is formed will result from the way in which the incentives of the parties are brought together to maintain a cohesive strength. Some regimes will require major compromises by the members, whereas in others a pre-existing commonality of interest or motivation may be present. For Stoker and Mossberger, a congruence of interest in terms of political outlook and political partnership results in issues being resolved by discussion and compromise. Finally, regimes may display competitive agreement where there is considerable political discord but the regime sustains through the parties recognising its value above their political differences.

Regime theory has developed both in depth and complexity and it has attracted its own critique. David Imbroscio (1998) believes regime theory is the 'dominant paradigm for the analysis of local politics', but argues that it suffers from a 'flawed conceptualisation of the division of labor (sic) between state and market within cities – a conceptualisation that tends to be overly rigid and largely static or fixed'. The argument here is that although regime theory is valuable in that it recognises the interface between the state and the market, it is wrong to portray this relationship in a fixed way. Imbroscio proposes 'a richer range of possible urban regimes than recognized by established regime typologies'. The example of the involvement of the City of Hull in telecommunications may be an illustration of the first of Imbroscio's models which he identifies as 'the local state as urban accumulator'.

The city is capable of involving itself in what was hitherto private business, and in this way the concept of a strict public/private division breaks down. Imbroscio also identifies the rise of the 'new community economics movement' as an example of a third force, which is neither public nor private but is influential in urban politics. Often run on a non-profit basis, these organisations may have a significant influence on economic regeneration and as such should be recognised in regime theory. Imbroscio quotes a number of examples from the United States, but in a British context, the Training and Enterprise Councils may serve as an example together with Housing Associations and Housing Action Trusts. Similarly, there is a weakness in the way in which regime theorists concentrate on the power of major companies rather than studying the activities of small-scale entrepreneurs. 'For example, rather than being dominated by large, multinational corporations, the city's private sector might be more diversified – driven to a greater extent by an array of small, independent businesses' (ibid.).

Imbroscio proposes further regime typologies to address the flaw in regime theory in assuming a rigid division between state and market. This classification focuses on community-based regimes (deriving from the new economics movement), petty bourgeois regimes (based on small businesses) and local statist regimes where the local state becomes directly involved in public profit-making activities.

Regime theory is therefore a developing area of the study of urban politics. Its concept of community power seeks a classification, which is in many ways derived from pluralist theory drawing on an examination of the incentives and power relationships of various actors. It moves away from normative statements by the use of empiricism, and as a result, the research is given a sharper focus. One feature that is lacking in much of the published research is, however, an in-depth view of the way in which regimes come into existence and the true intentions of the actors. These may not be as one dimensional as some classifications envisage. The complexity of relationships envisaged by regime theory is recognised by a number of commentators. What appears to be lacking is the recognition that a similar complexity might be present within the organisations and actors involved with urban politics. In a sense, of course, this is of no importance as the policy outcome will be the power focus, but in another way, a study of subjective motivation might reveal more accurately why and how a regime comes to form. Dunleavy and O'Leary consider this point when they write about behaviourism: '. . . behaviourism, the doctrine that social science should focus only on people's objective behaviour patterns – since their subjective intentions, wants and motives are private states which cannot be observed scientifically' (Dunleavy and O'Leary 1987).

Regime theorists appear to adopt a behaviourist approach when writing about motivation and presumably the main reason for this is that subjective wants are regarded as not researchable. Stoker and Mossberger (1994) write about motivation of businesses by focusing on the type of business rather than its internal components. The emphasis is placed on external factors: 'Are the dominant players from the same business sector, or managers in large corporations? What sectors of business are most dominant: property, retail, manufacturers, utilities, finance or service?' The importance of these factors in motivation is clear but an investigation into subjective factors should be possible with business actors and may reveal more. Especially with large business corporations, the strength of the regime may be influenced by the power relationships within the major actors. This might explain, for example, how Associated British Ports plc (as it then was) came to promote a major port extension at Dibden Bay, Hampshire, no more than 6 years after the company made representations to the Hampshire County Structure Plan public enquiry and launched an expensive publicity campaign in favour of a housing scheme on the site.

The question remains as to which, if any, of the theories of community power stated earlier and summarised in Figure 1.1 represent the relationship of the parties involved with property partnerships?

Elite Theory	Pluralism	Regime Theory
Antidemocratic Power over and to in the hands of a few In critical elitism control leads to 'power to'	Power decentralised Ever changing Hyperpluralism leads to ungovernable urban areas	Cooperation of the powerful Goal orientated Power to – capacity to act Presumptive power – agenda setting

Figure 1.1 Theories of community power summarised.

Centralisation of power by government

The roles of the various parties involved with a central area development are considered here, but overarching this whole process is the role of central government. Stephen Lukes (1974) first analyses three dimensions of power commencing with decision-making power. Agenda shaping is the second dimension, whereas the third is the power to influence people to such an extent that their desires are changed to accord with the power source, which may be central government, a private consortium or some other body. Lukes' conception of power develops into attempts by central government to bring power into the centre so that decisions made locally are controlled centrally or at least regionally.

An example of this can be seen in the 2004 Planning and Compulsory Purchase Act, where Section 38/6 requires that all planning applications must be determined in accordance with the development plan unless material considerations indicate otherwise. Regional Spatial Strategies and the London Plan form part of the definition of the 'development plan' and the plans of local authorities, such as Local Development Frameworks, have to follow the decisions set by the regional plan. Under the previous legislation, the 1990 Town and Country Planning Act, the predecessor of Regional Spatial Strategies, Regional Guidance, did not come under the equivalent of Section 38/6 (Section 54A of the 1990 Act) and was therefore only advisory, whereas the new plans are mandatory. In this way, central government pulls power into the centre by the use of unelected regional authorities rather than allow power to rest with local authorities such as District Councils. It is true that the 2004 Act introduces Statements of Community Involvement, which oblige local planning authorities to set out proposals for the involvement of the local community in plan making and development control, but this may be an attempt by the central government to reduce the power of local councils by involving the public directly. A recent White

Paper (Communities and Local Government 2008) *Communities in control; real people, real power* states the same message more explicitly: 'We want to shift power, influence and responsibility away from existing centres of power into the hands of communities and individual citizens'. Although the White Paper states that direct participation by citizens will strengthen and not undermine local government, it does not state exactly how this will be achieved without taking considerable power away from democratically elected local authorities; many commentators see the proposals as an attempt at setting the government agenda at the expense of true local representation in the traditional way.

Power relationships with central area redevelopment

The relationships between the local authority and developer with a typical central urban retail development scheme are now summarised. The actors involved are as follows:

1. local authority (District Council or Metropolitan Borough)
2. developer
3. developer's short-term funder (usually a bank)
4. developer's long-term funder (usually an institution or a bank)
5. tenants
6. the public
7. other public authorities (County Council)
8. pressure groups (civic societies)
9. central government

The incentives of the various parties involved with a typical scheme vary according to the nature of the organisation and its financial stake in the scheme. The Local Authority landowner wishes to see a scheme that accords with its planning and development brief and offers a financial return that represents value for money in terms of the asset it has in the scheme. It will have a long-term interest and will therefore wish to see a firm prospect of competent management that fits in with its aspirations for the remainder of the town centre. The developer is motivated by the prospect of profit and this is usually a short-term profit as it is usual for the developer to assign its interest in the scheme to a long-term funder upon completion; however, this is defined in the financing document. The short-term funder requires loan repayment with accrued interest and the long-term funder a scheme that is well and fully let out, and which will command an investment yield reflecting its quality, value and prospects for future rental growth. The Local Authority, as an elected body, can be expected to pay close regard to the views of the public, although in reality this sometimes does not appear to be the case. The anchor tenants for the scheme will have been committed by means of agreements to lease and should have similar incentives to the long-term funder. Both have a direct interest in the success of the centre and both will wish to see the centre popular with the general public. Pressure groups are sometimes consulted as part of the planning process but may also be influential as a result of the established business contacts of their members. The process for organising the development is dealt with later in detail, but, in summary, it often consists of the Local Authority resolving to dispose of the site to a developer and then seeking bids for a long-term ground lease from between four and six developers, each of which will have pre-qualified. The Local Authority landowner produces a development and planning brief against which tenders will be submitted and will accept (although it will not be obliged to do so) one tender by analysing the design and financial offer against its criteria. A question that arises from this summary of a lengthy process is 'does this typical partnership arrangement accord with any of the established theories of community power?'

An example may be taken of the WestQuay shopping centre in Southampton, which resulted from a long-standing commitment by the City Council to establish the city as one of the major retail centres in the United Kingdom. George Monbiot is unequivocal that this major shopping scheme is the result of an elitist initiative for the benefit of private companies (Monbiot 2000). Yet, as Michelle Lowe points out (Lowe 2005), the initiative to develop WestQuay came about because the City Council fortuitously owned 35 acres of land in the middle of Southampton. The leader of the Council at that time, Alan Whitehead, was ambitious to make the city a regional centre with WestQuay as its retail core. The presence of the John Lewis department store in a relatively poor location in the city was a further incentive, as this store had indicated that it wished to move from the area if it could not relocate to a better location within the city. Michelle Lowe identifies a 'close collaboration' with parties involved with the scheme, but the relationship falls short of what political theorists would describe as a regime. Imry, the developer proposed for the scheme, failed in the harsh economic conditions of the early 1990s and was replaced by Hammerson, with Barclays Bank as the funder. The impetus for the scheme originally rested with the City Council and primarily with John Arnold, Chair of Economic Development (and eventually the leader) and the then leader, Alan Whitehead. Their vision for the city rested on their long-term ambitions and their commitment to Southampton as a place where people would wish to visit and live. The opening of the centre in 2000 had the effect of placing Southampton in the 12th place in the accepted city retail ranking index (Experian 2001). These tables rank cities according to the quality of the retail experience, but the ranking is very much based on the number of multiple retail outlets available in terms of both variety and type. Investors in retail development would find the tables useful as those cities with the highest number of multiple tenants will probably also have the highest retail rents.

The City Council, as the promoter of the scheme, completed the necessary land acquisition so that WestQuay could proceed as the developers wished. Imry had originally been selected as the developer for WestQuay, as it had developed the first phase of retail warehouses. These had let well but also attracted considerable architectural criticism. When this company was no longer viable, its bankers, Barclays, sold the interest to Hammerson. Therefore, the City Council was not the main actor in selecting the developer for the site. In Imry's time, efforts were made to complete the site acquisition by the use of compulsory purchase orders on the necessary areas including a piece of land that would allow a mall to be built to link the centre with the traditional retail core of Southampton, Above Bar. According to John Bywater, the Managing Director of Hammerson, this acquisition was crucial to the success of the scheme. (Interview with John Bywater (5/3/06)) and Lowe (p. 10) describes it as a 'fundamental breakthrough'.

The example of WestQuay does not fit neatly into any theory of community power. The City Council displayed considerable 'power to' by providing most of the land for the scheme and promoting a compulsory purchase order, but the city had no means of bringing the scheme to fruition without a funded developer in partnership. The main component of the scheme, the creation of a major shopping centre let out to the highest paying tenants (multiples based on lady's fashions), was not an issue between the parties. Those representing the Council were concerned with pragmatic issues and, to enable the city to establish itself in the front rank of shopping destinations, a scheme of this nature had to be built. Planning policy followed the market imperatives.

A similar factor is seen in the power of urban governance in Dublin with the implementation of various initiatives to regenerate the city centre (McGuirk and MacLaran 2001), except that some dissension is noted between the planning and market requirements. 'Governing power was socially produced in a collection of cross-sectoral networks which operated across a range of scales and blurred the boundaries of the public and private sectors . . . local government planners were sidelined'.

The WestQuay scheme was not the product of a 'regime' in the sense that Clarence Stone defines it, but there is certainly a strong element of agenda setting within and beyond the local community. Private sector profit requirements were paramount in the way the two main parties, the City Council and the developer, perceived the success of the scheme. A more recognisable example of elitism has been reported in the regeneration of Manchester city centre; 'Implicit in this was the emergence of new power brokers, in effect reconstituting the "Manchester Men" of earlier generations, with such elite networks typically spanning the public-private sector divide' (Williams 2006). Other commentators have questioned the benefits that flow from such projects and imply that agenda setting produces buildings that may be profitable for developers and, through ground lease payments, for Councils, but do not provide softer benefits for those excluded from the policy discussion.

In writing about the Paradise Street regeneration of Liverpool city centre, a partnership between Grosvenor as developer and the City Council, Anna Minton describes the new scheme creating private space from what was once the public realm with all its democratic implications: 'in terms of public space the key issue is that while local government has previously controlled, managed, and maintained all streets and public squares the creation of these new "private public" spaces means that, as in the early Victorian period, they will be owned and managed by individual private landlords who have the power to restrict access and control activities' (Minton 2002). The New Economics Foundation (NEF) identifies what it calls a 'clone town', which is defined as 'a place that has had the individuality of its high street shops replaced by a monochrome strip of global and national chains that means its retail heart could easily be mistaken for dozens of other bland town centres across the country' (NEF 2005). The report calls for public sector action to maintain the diversity of the town centres and control free market forces to the benefit of communities that do not choose the urban fabric produced by development partnerships and the dominance of the profit-maximising motive. Apologists for regeneration policies of the type described may well point out that the value of all property depends on the utility enjoyed by the end user, often a rent-paying tenant. If the schemes created were not viable for the retail tenants and popular with the public, they would not be built. It is also true, however, that property development is, for developers, a short-term profit-generating exercise and there is often no incentive to consider longer term implications of major town centre projects.

The state and the private sector – the 'hollowed out' state

David Held (1996) categorises states into various categories over time, culminating in what he refers to as the 'modern state'. His account moves from empires to feudalism, to the polity of estates and absolutist states to the modern state. Pierson refines his original list of features characteristic of the modern state (see the earlier text) into five main areas (1996, p. 52):

1. monopoly control of the means of violence
2. territoriality
3. sovereignty
4. bureaucracy
5. taxation

Although the above features can be applied to the state, at least in Great Britain if not in the United Kingdom, since 1945, there have been more recent changes to the way in which the state relates to the private sector. This has causal effects with the way in which the state organises property partnerships and the cause is rooted in the government's macroeconomic policy. The major change in the nature of the state since 1945 has been the move towards the enabling and regulatory state rather than the state directly providing goods and services including property facilities. Colin Crouch (2004) contrasts 'old government' with 'new governance'. The former is characterised by 'command and control, hierarchy and authority, institutions and organisational structures', whereas the latter is based on 'facilitating, collaborating, bargaining, networks, partnerships, processes, policies, outputs and outcomes'.

George Monbiot (2007) makes a similar point, but far more strongly, when he charts the rise of 'neoliberalism' from 1947, when the founder of the Mont Pelerin Society, Friedrich von Hayek, proposed the philosophy that became known as *neoliberalism*. Monbiot sums it up as follows: 'Neoliberalism claims that we are best served by maximum market freedom and minimum intervention by the state. The role of government should be confined to creating and defending markets, protecting private property and defending the realm. All other functions are better discharged by private enterprise, which will be prompted by the profit motive to supply essential services'. Monbiot here describes the 'hollowed out' state where 'power over' remains (arguably) but 'power to' is passed to the private sector. His definition is, however, subjective, but the way in which the state addresses forces that influence the power it can wield can now be investigated. These forces encompass globalisation, corporate power and the policy of UK governments, in adopting a neoliberal agenda.

The state, globalisation and the corporations

Poggi (1990) defines globalisation as '. . . a complex of economic, technological, ecological and cultural structures and processes (that) display their effects on the scale of the planet, or at any rate, have a radius of action that ignores, or denies relevance to, any state's territory'. For David Held it is '. . . a multi-dimensional phenomenon involving diverse domains of activity and interaction including the economic, political, technological, military, legal, cultural and environmental' (Held 1996). The inference to be drawn from Poggi's definition is that global forces render states powerless to successfully achieve domestic policy outcomes, unless they accord with the interests of those who control global corporations. Globalisation is, however, seen to extend beyond the field of economic policy and industrial production. The references to culture imply that globalisation is an enveloping force that has an influence on the whole of society, not just those matters that normally concern the state. Hirst and Thompson (1999) emphasise the importance of studying economic globalisation as all other factors are seen as a consequence of global forces and unsustainable without them. They do not deny that there is an international economy, but they dismiss the views of the extreme globalisers such as Ohmae (1995). They see globalisation as 'largely a myth' and their argument rests on five main tenets.

Firstly, Hirst and Thompson draw comparisons between the present international economy and that of previous periods in history from the industrial revolution onwards. They believe that the current economy in many areas is less open than previously. Secondly, they draw the distinction between transnational companies and national companies that trade internationally. The latter are seen to have a committed economic base in one country, whereas the former are able to locate freely around the globe. Hirst and Thompson believe that true transnational companies, analogous to 'hot' money in financial terms, are rare. Thirdly, there is no discernible shift of capital from the advanced Western countries to the developing economies with foreign direct investment (FDI) concentrated in the former. Fourth, trade and financial movements are concentrated in the Western economies and fifth, governments, by cooperation, are able to control and regulate private global forces if they so wish.

Hirst and Thompson develop their arguments, and other commentators support their views. Linda Weiss (1997) believes that the effect of economic globalisation has been exaggerated. She compares historical international trade and capital flows with those of the present day and concludes that 'As late as 1991 the OECD shares of exports on GDP (17.9%) did not enormously outweigh those estimated for 1913 (16%)'. Also, as manufacturing has declined as a percentage of economic activity within the Organisation for Economic Cooperation and Development (OECD), there has been weaker trade integration and she points to the ratio of world trade to output, which has declined from 1.65 in 1965–1980 to 1.34 in 1980–1990. She also notes that FDI has declined as a proportion of long-term investment flows and is concentrated in merger and acquisition activity with the major part in nonmanufacturing. She concludes that the importance of economic linkages in these areas, which may have an influence on state policy, has been overemphasised. Hirst and Thompson (1999) also consider the development of world trade but from the standpoint of trade to gross domestic product (GDP) ratios. Here again they record that GDP ratios were 'consistently higher in 1913 than they were in 1973' with the exception of Germany where they were roughly equal. They also state that in 1995, Japan, the Netherlands and the United Kingdom were less open than in 1913. There is therefore a weight of evidence to suggest that a global economy, at least by the measurements of FDI and trade, is not a recent phenomenon.

It can be argued that there is historical precedent for a global system of trade and investment flows, but the picture is somewhat different if the time perspective is reduced. Many commentators see distinct differences in the ability of states to pursue unilateral economic policies stemming from the collapse of the Bretton Woods system in 1971. Under this system, which was agreed on by the allied countries in 1944, a fixed dollar/gold exchange rate of $35 per ounce of gold was set and the United States guaranteed that it would freely convert dollars into gold. The United Kingdom pegged its exchange rate to other currencies, and domestic central banks could intervene on the foreign exchange markets. It was also expected that countries would pursue deflationary or inflationary policies in the case of disequilibrium. The International Monetary Fund (IMF), set up at the time, was able to lend money where countries had insufficient reserves to maintain their exchange rates. Only in exceptional circumstances were countries able to devalue their currencies.

The policy objective of the Bretton Woods system was to prevent competitive devaluations and to enable some stability to underpin international trade. Sloman (1995) identifies three consequences of the Bretton Woods system. Firstly, uncertainty was reduced and trade encouraged by the stability of exchange rates over a long period. Secondly, the system of rates pegged to the dollar acted to dissuade governments from pursuing irresponsible economic policies that kept world inflation stable. Thirdly, in the case of severe deficit, a country could devalue, thus avoiding a major recession. Hirst and Thompson (1999) believe that the stability provided by Bretton Woods resulted in 'A period of prolonged economic growth and full employment in the advanced countries, sustained by strategies of active national state intervention and a managed multilateral regime for trade and monetary policy under United States hegemony' (ibid.). The inference is that the system increased the ability of states to pursue domestic economic policies on the Keynesian model as they were able to increase debt on a short-term basis without precipitating a run on the currency, higher interest rates and recession.

A number of factors contributed to the collapse of the Bretton Woods system in 1971. The UK government did not find devaluation an attractive option as it was difficult to assess whether a monetary deficit was a long- or short-term feature of the domestic economy. Also, if devaluation was made, this would have the effect of disrupting domestic business, causing uncertainty and a reluctance to invest. This was compounded by the 'J curve effect', which resulted in an initial deterioration in the balance of payments immediately following a devaluation. The position of the United States as a reserve currency encouraged this government to run large balance of payments deficits, largely as a result of the Vietnam War, and this had the effect of increasing world inflation (Sloman 1995, p. 1003). The result was the breakdown of the Bretton Woods system in 1971, as US gold reserves became so depleted that convertibility could not be ensured. After 1971, states were compelled to adjust their ratios of debt to GDP and 'From the 1970s onwards, then, restrictive policies were called upon to secure the stability of international exchange and the global flow of capital' (Kerr 1998, p. 2281). Each state was compelled, in Kerr's opinion, to protect the value of its own currency in the face of an unregulated international monetary regime and was thus unable to pursue policies that would result in increasing levels of indebtedness. The power of the state to intervene in the economy was thus reduced.

Statistics confirm that the UK Public Sector Borrowing Requirement (PSBR) did indeed increase in the 1960s and 1970s, particularly following the election of the Labour government in 1966. It doubled between 1966 and 1967 from £949m to £1844m, but its most dramatic increase took place between 1972 and 1975, when it went from £1950m in 1972 to £4093m in 1973, and thence to £6452m in 1974 and £10 161m in 1975 (Sloman 1995, p. 678). Contrary to Kerr's opinion, the collapse of Bretton Woods did not result in an immediate curtailing of government borrowing. The state continued its interventionist policies even in the face of an unregulated international financial system. Hirst and Thompson point to this and other factors as contributing to what they call 'the myth of the globalisation of economic activity' (Hirst and Thompson 1999). They believe that there were a number of main changes to the international economy after 1971, which did not amount to economic globalisation, but which in some way contributed to governments believing that they were powerless in the face of insurmountable global forces. 'If the widespread consensus of the 1950s and 1960s was that the future belonged to a capitalism without losers, securely managed by national governments acting in concert, then the later 1980s and 1990s have been dominated by a consensus based on contrary assumptions, that global markets are uncontrollable and that the only way to avoid becoming a loser – whether as nation, firm or individual – is to be as competitive as possible' (Hirst and Thompson 1999).

The factors cited by Hirst and Thompson are the oil price increases of 1973 and 1979, which resulted in rapid cost push inflation compounded by the US involvement in the Vietnam War. Although the increase in oil price was in part a result of the dramatic economic growth that occurred in 1972–1973, Harry Shutt (1998) points out that it was also politically motivated by the Yom Kippur War of October 1973. As a result of inflationary pressures, financial institutions and manufacturers sought opportunities for capital investment in the Third World, the Eurodollar market grew and ratios of foreign trade to GDP grew in domestic economies. Hirst and Thompson also cite the abandonment of exchange controls and market deregulation in the late 1970s and 1980s, and the tendency of Western economies to move from industrial to service economies coupled with the rapid growth of newly industrialising countries (NICs). These factors were joined by the tendency for Western industry to organise itself on the post-Fordist model of more flexible production methods. Hirst and Thompson believe that none of these factors are representative of unstoppable global power and they are of the opinion that the state can still pursue 'radical goals . . . with a modest change of attitude on the part of key elites' (Hirst and Thompson 1998).

Government policy

In terms of government expenditure, it is clear that if power to act is identified with government expenditure as a percentage of GDP the state maintains its position. As a percentage of GDP, government expenditure was greater than 40% in the years 1981–1987 and 39% in the year 2007–2008. The lowest figure, 36%, was recorded in 1989–1990 just before the economic collapse of the early 1990s (Public Sector Statistical Analyses 2007).

There is little evidence that those currently (and recently) charged with running the UK state are inclined to the change of attitude suggested by Hirst and Thompson. Speaking in South Africa in 1996, Tony Blair said 'Globalisation has destroyed any notion of countries cutting themselves off from world markets. Go-it-alone inflation or spending policies will be mercilessly and immediately punished by capital markets that can overwhelm a nation's currency' (Wickham-Jones 2000, p. 2). At the same time, Gordon Brown stated: 'World interdependence shows that true national sovereignty will have to be sought within the realities of the international economy'.

Further evidence of the present government's stance on market forces was provided in Tony Blair's attitude towards the closure of a factory operated by Fujitsu in his Sedgefield constituency. He stated: 'It would be totally dishonest to pretend that government can prevent such decisions' and 'We can't, as Government, do much about the twists and turns of world markets in an increasingly globalised economy' (Wickham-Jones 2000). Government publications illustrate both its belief in the power of global capital and its support for it. A government White Paper on global poverty produced by the Department for International Development defends the activities of the World Trade Organisation (WTO) and 'makes a strong intellectual case for global capitalism' (HM Treasury 2000a).

The government White Paper '*Stability and Investment for the Long Term*' (Economic and Fiscal Strategy Report, The Treasury 1998) also provides an indication (*albeit* a broad-brush one) of the thinking behind Labour government policy. The central objective is stated to be the achievement of high and stable economic growth and employment. Low inflation and sound public finances (undefined but assumed to mean the control of government debt) are fundamental objectives and the government is committed to 'pressing for further liberalisation of trade and investment and for competition policies which ensure free and open markets' (Economic and Fiscal Strategy Report 1998, p. 11). In many areas, there is little to choose between the policies of the present Labour government as evidenced by the White Paper and its Conservative predecessor. The 1996 White Paper *Creating the Enterprise Centre of Europe* states that 'the government has an important role to play' (p. 4) in providing a stable macroeconomic framework, deregulation, lowering of marginal tax rates, liberalisation of markets and privatisation, with the provision of business support services. The White Paper also states that government will seek to ensure that 'those services which remain within the public sector achieve higher standards and are provided cost effectively' (p. 4). Both the current government and its predecessor are clear in their commitments to supporting business and trade liberalisation, which, it is assumed, will lead to higher economic growth. It is noticeable that there is an implication in the 1996 White Paper, as evidenced in the earlier quote, that public sector provision is both of poor quality and expensive.

The policies of the mid-1990s, as evidenced by the government publications at the time, have been translated into policy implementation in the new millennium but it is noticeable that globalisation no longer appears to be an issue. The reality of the power of the global capital markets seems to be a self-evident truth to government. The Treasury publication *Globalisation and the UK: Strength and Opportunity to Meet the Economic Challenge* provides an account of government policy by listing six 'key policy challenges' to respond to globalisation. These emphasise the need to achieve macroeconomic stability and build an enterprising and flexible business sector, and make the United Kingdom 'as attractive a place as possible for international business' (HM Treasury 2005). The role of government is that of an enabler and a catalyst. Although the state continues its regulatory role, this is to be accomplished by continuing 'to strive to minimise undue regulatory burdens by ensuring that regulation is used only where absolutely necessary and that administrative burdens . . . are as low as possible' (HM Treasury 2005). The policy framework is clear. The role of the state in terms of property facilities is to provide the conditions where the private sector can function efficiently with minimal regulation. 'Power over' is maintained but 'power to' will be increasingly constrained by agreements and contracts with the private sector and this is the subject of positive policy rather than the state accepting a *fait accompli* by default.

The present Labour administration accepts that global forces mean that there is no alternative to pursuing policies that make the United Kingdom an attractive place for private investment. It is clear that certain interventionist policies that might have been followed in the past, such as nationalisation, are only options when private sector solutions are exhausted. Thus the power of the state, at least in terms of policy options, has been curtailed. A number of questions remain, however. Why has the present government accepted this position so wholeheartedly and is there in reality a wider range of policies available that would not result in the economic meltdown foreseen by Tony Blair and Gordon Brown? Why has government policy moved dramatically away from those areas which in the past would have been regarded as entirely appropriate?

Development of government policy

Writing shortly after the Second World War, R H Tawney summarised the policy objectives espoused by the Labour Party after 1918, which to a large extent informed its actions in government from 1945 until 1951: '. . . the legal enforcement of minimum standards of life and work; the expansion of different forms of communal provision designed to make accessible to all advantages previously confined to the minority with the means to buy them, the use of financial measures to reduce economic inequalities; and the transference of certain foundation services to public ownership' (Tawney 1964). These objectives, particularly the final one, did not commend themselves to the Conservative government that took power in 1951 (*albeit* with a lower popular vote than Labour) and, to an even lesser extent, to the Thatcher government from 1979 onwards.

For most of the late twentieth century, government policy concerning the provision of public goods was highly interventionist, whichever of the two main parties were in power. This is evidenced by the New Towns Act 1946, which was promoted by a Labour government and maintained on the statute book by the next Conservative administration, although this government did not augment Labour's proposals by designating any further towns. Each new town was built by a development corporation that acted as a 'statutory speculative builder with the job of building a town, attracting customers, selling and letting real estate and services and showing a return on capital just like any commercial undertaking' (Harvey 2000, p. 263). The state here, through the agency of a development corporation, regards commercial building as a 'public good' as it was widely believed at the time that the market would not provide a satisfactory solution to the need for new settlements and, if it did, would not satisfy the strategic planning criteria that flowed from the 1947 Town and Country Planning Act. There was a widespread belief in the necessity to use direct state power if the correct type of development was to be provided. The provision of public facilities showed the same belief. War destruction meant that in the immediate post-war period housing and education were the priorities for government, but there was also a need to renew health facilities. The 1946 National Health Service Act resulted in the nationalisation of the health service estate, and renewal was to be financed by central government grants, taxation and national insurance contributions. This finance proved to be inadequate and even when the principle of major hospital investment was adopted in 1962 the rate of completion was poor. This problem has been a continuing one, 'Between 1980 and 1997, only seven public schemes costing more than

£25m were completed' (Gaffney and Pollock 1999) and of the 224 schemes proposed in the 1962 hospital plan, only a third were completed, a third partially completed and a third not started (ibid). The turn in government policy towards the enabling state rather than the interventionist state may be informed by this poor delivery but also by bitter electoral experience.

Some of the reasons for the present government's acceptance of the dominance of global forces stem from Labour's experience in office between 1974 and 1979. Labour came to power following the miners' strike that precipitated the fall of Heath's Conservative administration. In the opinion of Tom Ling (1998), 'the Labour Party came to office with its most radical programme since 1945'. This is perhaps not surprising as Labour had not had the opportunity to implement a programme as a government since 1945. The incoming government was unequivocal; it would engineer a fundamental shift of power and wealth by setting up a National Enterprise Board with a remit to invest in growing sectors of the economy by means of a £1000m budget.

It promised to repeal the 1971 Industrial Relations Act and replace it with the *Social Contract*. A new Industrial Development Unit and a new Industrial Policy Department at the Treasury were set up. Implementation of this strong interventionist programme was curtailed by worsening economic conditions resulting from the oil price increase and the reaction to the pre-1973 speculative boom. The reaction of government to these problems was in line with the prevailing Keynesian orthodoxy. 'This meant seeking to soften the blow of falling output by increasing government borrowing rather than by the orthodox approach of bringing reduced state revenues into line with expenditure – through either big tax increases or corresponding cuts in public spending' (Shutt 1998). Steven Fielding (2000) believes that the cause of the subsequent reduction in public spending and rising unemployment was 'international currency speculation . . . which might be seen as early evidence of globalisation'. Indeed, general government expenditure as a percentage of GDP fell from 49.3% in 1975–1976 to 46.7% in 1976–1977, and thence to 43.0% in 1977–1978 and 44.0% in 1978–1979 (Public Expenditure – Statistical Analyses 1998–1999). Subsequent defeat at the polls in 1979, and a further defeat in 1983 when Labour campaigned on a broadly interventionist programme, led to Neil Kinnock's policy review that made the achievement of low inflation a major policy objective. 'He also recognized that taxing and spending had to remain at "prudent" levels' (Fielding 2000). 'Prudent' in this context is a word much used in the immediate past by the current Prime Minister and can be broadly interpreted to mean economic policies that do not result in inflationary pressures or a run on the currency.

It would appear therefore that bitter electoral experience has had an influence on current Labour economic policy and has helped to convince the present government that the state can no longer increase its indebtedness to pay for direct interventionist programmes. Labour's primary macroeconomic objectives are the control of inflation and the promotion of GDP growth. The former responsibility is the remit of the Monetary Policy Committee (MPC), which uses the manipulation of interest rates to maintain the government's inflation target. Since 1997, the MPC has presided over a downward trend in inflation, which has varied between just over 3 and 2% per annum, although at the time of writing, inflationary pressures have re-emerged as a result of a boom in oil prices and world demand for commodities. The handing over of monetary policy to a reconstituted Bank of England and the setting up of a range of tight fiscal policy rules is seen by Colin Thain (2000) as one of four paradoxes at the heart of Labour's management of the economy, with the key to government strategy lying in the policies established in the early years of the new millennium, which are continued today.

Thain believes that it is paradoxical that the then Chancellor should behave as 'the perfect model of an orthodox Minister of Finance – prudent and cautious' (Thain 2000) while presiding over income redistribution 'by stealth'. At the 1997 election, Blair made a policy commitment not to raise income tax. It can be reasonably surmised that Labour had identified income tax rates as an issue that contributed to the loss of the 1992 General Election. Although Blair was true to his words, the overall burden of tax as a proportion of GDP rose from 35.3% when Labour took office to 37% in 2000 (Thain 2000). Higher indirect taxation and higher social security payments were the main causes of this rise. Higher than predicted economic growth has also resulted in a greater accumulation from corporation tax and indirect taxes. It also had the effect of promoting employment, thus lowering unemployment benefit payments.

The government's Comprehensive Spending Review announced on 18 July 2000 predicted a dramatic increase in spending from £371bn in 2000–2001 to £392bn in 2001–2002 to £440bn in 2003–2004 (Anon 2000b). The major areas of increased expenditure were transport (annual increase of 20%), the home office (6%), the national health service (5.6%) and education (5.4%). Little increase was planned for defence (0.3%), and the foreign and commonwealth budget was predicted to rise by only 1.9% per year (Anon 2000b). The appearance is of a government committed to increasing spending in those areas that are in its direct control and that have a profound influence on the lives of its citizens. It is then perhaps surprising to reflect that public spending as a percentage of GDP was just below 40% in the second quarter of 2000, which was the lowest it had been since 1967, apart from 1989 when it was again, briefly, just under 40% (Anon 2000b). Gordon Brown was able to predict increased public investment between 2000 and 2003 as a result of the government's ability to accumulate capital since 1997. At the same time, he intended to manage government debt to ensure that the British economy displayed low interest rates and competitiveness.

The Labour government's belief in, and acceptance of, global finance have resulted in rigid treasury control over spending. Colin Thain's view is that treasury control contrasts paradoxically with 'an administration committed in some policy areas to decentralisation and devolution' (Thain 2000). He also sees a paradox in Labour's concentration on supply side economic policy in contrast to the demand side Keynesian policies of the past. 'Under Brown, the Treasury has been a leading advocate of increased labour market flexibility and deregulation in an EU dominated by Social Democrat led governments still committed to the Rhine Social Market Model'. Government policy is placed between a liberal transatlantic model and the social market model typified by French labour policy. Keynesian policies that targeted full employment as a major policy goal are no longer of interest to the UK government, it would appear. Bank of England independence emphasises the control of inflation as the target and a major role of the state is to maintain economic conditions favourable to business and enterprise.

Christopher Hood (1994) considers three possible explanations for the decline of Keynesian policies. These are political incumbency, the political business cycle and the effect of entrenched institutional arrangements. Political incumbency assumes that the party in power will make a political value judgement about the importance of certain policy goals with the result that right-wing governments should target inflation control over maintaining employment, whereas left-wing governments will take the opposite view. Hood identifies a number of problems with this approach as the evidence from the history of UK politics is far from clear. James Callaghan's Labour government from 1975 to 1979, for example, clearly adopted monetarist policies in the face of increasing inflation, whereas Thatcher's government after 1979 proceeded very cautiously towards privatisation and was only convinced to do so after the surprisingly successful British Telecom privatisation in the mid-1980s. Also, as Hood says, 'small open economies' may be forced to follow policies dictated by strong trading partners. Ireland may be a good example here.

The political business cycle argument seeks to rationalise policy by focusing on the timing of policy decisions depending on the timing of the next general election. By this logic a government will be willing to allow unemployment to rise immediately after an election to achieve low inflation, whereas in the years just before an election, inflation can be allowed to rise and unemployment to reduce. Hood sees a number of problems with this approach (first proposed by Michael Kalecki in 1943). Voters are unlikely to be as naïve as the theory supposes, and policy switches are far from clean and predictable in terms of results and it is difficult for politicians to be sure that they are promoting policies that will appeal to the correct section of the electorate. Also, it can be said that the theory places an unjustified reliance on the theory first put forward by AW Philips in 1958, which showed an inverse relationship between the rate of unemployment and inflation. The relationship is far more unpredictable than the smooth curve that appears in most economic textbooks.

Entrenched institutional arrangement theory has two main sub-theories. Some states are seen to have developed certain structures that will naturally lead them to reject Keynesian policies. Hood uses the example of the United Kingdom where Keynes, as an academic, had no clear pathway into government decision-making in contrast with Sweden, which quickly adopted Keynesian policies, with easy access provided by the structure of the state. The second strand of arrangement theory is based on the degree of corporatism in a particular state. Hood defines corporatism as the 'extent to which there are tripartite institutional arrangements linking the state with peak associations of labour and capital'. Closeness with other strong economic interests, particularly organised business interests, is assumed to lead to adoption of policies opposed to Keynesianism. Hood believes that corporatism only explains changes of style rather than anything more fundamental, but it appears to have some resonance with the business friendly policies pursued by the present government.

Exercise of state power

The state in the United Kingdom therefore exercises considerable influence over society, but the way in which it exercises power is difficult to analyse within existing models. In terms of those areas where the state directly funds and manages, the dominant power is held by the Treasury, although the power it exercises is far from the Weberian model. In other areas, the state uses private agencies to achieve policy goals, typically with the PFI, which is dealt with in Chapter 4. Regime theorists and pluralists concentrate on the analysis of how the state exercises power within its territorial boundaries but in the words of Andrew Gamble (2000) 'For Britain most constituent issues are now decided at supranational level in the various treaties and agreements on security, trade, currency and the environment, which British governments have signed'. There does appear, however, to be a distinct difference in the way in which the freedom of global capital can influence domestic policy. There are high-profile examples of firms appearing to be footloose and relocating from the high labour costs of the West to take advantage of low labour costs in the Third World, but the bulk of FDI remains with the developed Western economies (Weiss 1997; Hirst and Thompson 1999). Plant and buildings for industrial production require substantial amounts of capital which, once invested, becomes relatively illiquid in comparison with capital invested in currency speculation. Many commentators cite the level of commitment that comes with substantial investment in land and buildings (Hutton 1996), but there is a contrast with the attitude of government towards this type of investment and the more volatile type of currency speculation that was typified by the problems of the European Monetary System (EMS) in 1993.

In essence, EMS is a system designed to ensure stable currencies within Europe. Business is able to undertake reliable short- and medium-term financial planning as it is protected from wild fluctuations in currency values. It has much in common with the Bretton Woods system and claims many of its advantages. The United Kingdom was part of the system in the 1990s as an attempt to control inflation where strict monetarism had failed. As a result of German reunification, the non-competitiveness of most of East German industry, and the inflationary pressures that resulted, the Bundesbank raised its interest rates (Martin and Schumann 1997). The United Kingdom subsequently followed this move in an attempt to stave off currency speculation that was driving the value of the pound downwards. The eventual collapse of the EMS, and the United Kingdom's exit from it, demonstrated in stark reality the weakness of states in the face of global monetary forces and, it is reasonable to assume, confirmed the views of Blair and Brown that state policy is heavily constrained by the global financial system.

Although domestic government may accept that there are tight constraints on macroeconomic policy, state power is an essential component to allow international business to function. There is nothing new in this. As Will Hutton points out, the UK state had a substantial role in promoting the development of industry from the time of the industrial revolution: '. . . protecting the domestic market; guaranteeing traffic in British vessels; developing the London banking system through government deposits; issuing government stock, and underwriting loans and using the power of public procurement to develop key industries' (Hutton 1996). State support remains necessary where financial institutions fail and serious financial instability would result. Shutt (1998) provides the example of US Savings and Loans Corporation, but there are many others such as the rescue of the fringe banking sector at the time of the 1974 crash in the United Kingdom (Fraser 1993).

In spite of the action that might be forced on the state, the nature of the way it promotes and supports industry has changed. It may be true that, in the short term, it is not in private companies' interests to make investments in land, plant and machinery, but only to disinvest and relocate. However, the reality appears to be that states compete with each other to make economic conditions more suitable for private profitability. In terms of taxation, Martin and Schumann see this commencing in 1986 'when the US government set a new standard by reducing the tax on profits for joint-stock companies from 46% to 34%' (Martin and Schumann 1997). This policy has been followed by many other Western states, notably Ireland and Belgium. Companies are able to channel profits through low tax economies, to take advantage of competitive tax rates, but the benefits that result from such state generosity are often obscure: 'BMW supposedly made a third of its total profits in the Belgian branch, without a single car being produced there' (Martin and Schumann 1997).

Martin and Schumann conclude that 'it is no longer democratically elected governments which decide the level of taxes; rather, the people who direct the flow of capital and goods themselves establish what contribution they wish to make to state expenditure' (1997). This view is perhaps extreme as it can be reasonably assumed that business would not regard any level of taxation as attractive. As Monbiot points out, directors of private companies have a 'fiduciary duty' towards their shareholders (Monbiot 2000), which can be translated as 'the obligation to exercise powers bona fide and for the benefit of the company' (Ellison *et al*. 1997). The Confederation of British Industry (CBI) consistently lobbies to reduce taxation and government administrative requirements.

Government therefore has accepted the power of private capital to influence policy, but still retains considerable freedom within overall constraints. This is also seen in the behaviour of the UK government in its involvement with international agencies such as the WTO. The WTO was founded in Geneva in 1994 essentially to promote the liberalisation of trade throughout the world. The justification for this policy owes much to the theory of 'comparative cost advantage' developed by David Ricardo in the nineteenth century (Straffa 1951). The theory states that international trade will benefit both highly productive and less productive countries, but Martin and Schumann (1997) believe that the theory rests on the idea that capital and private business are immobile and remain in their countries of origin. Their view is that the theory is 'completely out of date . . . it is no longer relative differences in cost that are the engine of business. What counts is absolute advantage in all markets and countries at once' (ibid.). When international companies move to an area of low wages the result is that both wages and goods fall, as cost levels fall, as there is no need for firms to be concerned with social or environmental costs. Nevertheless, those countries who are members of the WTO (including the United Kingdom) support the promotion of free trade and it is proposed by the WTO Secretary General that governments should agree that by 2020, all custom barriers and regional agreements should be dismantled and the whole world should be turned into a free trade area (Martin and Schumann 1997).

The policy of the UK government towards the WTO is unequivocal in its support. 'Exposure to competition and trade sharpens incentives, encourages the diffusion of technology and opens up opportunities to catch up with the world's leading firms . . . . Increased market size allows greater . . . exploitation of comparative advantage. Episodes of trade liberalisation are, almost without exception, associated with rapid growth in trade and an increase in economic growth' (Economic and Fiscal Strategy Report 1998, Chapter 2). This is repeated in the Treasury paper *Globalisation and the UK* (2005): 'Globalisation means that economies and markets will become ever more interlinked and interdependent, through increased cross-border trade and investment and more integrated financial markets'. The theory of comparative advantage is accepted as an unequivocal economic truth and increased trade is predicted to bring substantial economic benefits to the United Kingdom if it continues to adopt trade liberalisation policies.

Other commentators disagree with the smooth logic of government policy expressed in the above report. Harry Shutt (1998), for example, believes the impact of the Marshall Plan was far more influential in promoting growth in the post-war world and he also cites the failure of tariff reductions to prevent the end of the economic boom in the 1970s. 'It is thus utterly implausible to suggest that the lowering of tariffs under GATT (General Agreement on Tariffs and Trade, predecessor of WTO) acted as a significant stimulus to the rapid economic growth that occurred in the OECD countries between 1950 and 1973' (Shutt 1998). George Monbiot (2000) sees the WTO and more particularly the failed Multilateral Agreement on Investment (MAI), as representing direct threats to the power of the state to legislate within its territorial boundaries. 'The MAI would have allowed corporations directly to challenge laws passed by national or local governments, through a special tribunal' (Monbiot 2000).

UK government policy, whether justified by statistical fact or not, is geared towards increases in prosperity and it is this that underpins its attitude towards government action and regulation. Prosperity is often regarded by government as synonymous with economic growth, in other words, consistent rises in GDP. Long-term growth in GDP does indeed show a consistent, if unspectacular rise, in the United Kingdom throughout the late twentieth century (IMF 1998). The wages of the top 10% of male earners have risen from 1.67 times the median wage in 1979, to twice the median in 1993, but distribution is more unequal as, over the same period, the wages of the poorest paid 10% fell from 68.5 to 58.2% of the median (Hutton 1996, p. 172). Inward and outward FDI shows that the United Kingdom has a much more open economy than Germany, France, the United States or Japan in the period 1981–1994 (Competitiveness – Creating the Enterprise Centre of Europe, Chart 1.3, 1996). The government contents itself with the promotion of economic growth, but many commentators regard this as a very narrow view of prosperity. Firstly, GDP growth does not deal with inequality and, secondly, it does not provide a reliable index of standards of life. This is indicated by Scitovsky's (1992) work in defining an index of human happiness. This is given the title of the 'Index of Sustainable Economic Welfare' (ISEW) and takes into account such matters as noise pollution and the depletion of natural resources. The conclusion is that, whereas per capita GDP rose by 44% in the period 1976–1996, the ISEW fell by 25%.

Government and private companies

British government policy towards domestic, transnational and multinational companies justifies itself on three main grounds. Firstly, global forces are impossible to resist without courting economic disaster; secondly, minimal barriers must be placed in the way of the operation of private business in the United Kingdom; and thirdly, greater benefit will result to society. Economic policies that curtail the power of the corporations to an unacceptable extent are not regarded as an option for government. What is acceptable or unacceptable is, of course, a matter of degree and judgement as government policy is formed on the assumption that the United Kingdom competes directly with other countries for private investment. In this way, the UK state relies on the private corporations but, in turn, the private corporations rely on the state maintaining their rights to run businesses within an established and enforced legal background. Yet it appears that the effective power of the state to act directly for the benefit of its citizens is curtailed, as it is assumed that prosperity will only result from the activities of private business with minimal regulation. This position is put succinctly by Robert Kuttner: '. . . one true path to the efficient allocation of goods and services. It includes, above all, the dismantling of barriers to free commerce and free flows of financial capital. To the extent that there is a remnant regulatory role, it is to protect property, both tangible and intellectual; to assure open, non-discriminatory access; to allow any investor to purchase or sell any asset or repatriate any profit anywhere in the world; to remove and prevent subsidies and other distortions of the laissez-faire pricing system; to dismantle what remains of government-industry alliances' (Kuttner 2000).

Both in the macro and the micro sense, government policy is focused on allowing and incentivising the private sector to produce goods and services required by the public. Direct action by the public sector in terms of nationalisation is no longer required or promoted except in special circumstances. The case of Northern Rock, for example, is one area where government found that it was obliged to act to protect the collapse of the bank. The government operates as a catalyst for the maintenance of a buoyant private sector, and as a lender of last resort, to prevent unwanted consequences when a private enterprise accepts too much risk. At a local level, market forces are largely allowed to operate and are assumed to be sensitive to consumer preference although there is clearly a strong element of agenda setting in the way policy emerges.

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