The London School of Economics and Political Science

Community, society, and adaptation: assessing the institutional factors behind long-run growth in the local and regional economy

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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Thomas Farole
17 July 2009

Abstract

The purpose of this thesis is to develop and test a framework on the role and dynamic interaction of group life (*community*) and societal rules (*society*) as one of the factors shaping patterns of economic growth and adaptation. Cross-country regression analysis is undertaken to determine the significance of the relationships between community and society (individually and jointly) and various institutional factors. Following this, two pairs of comparative city-region case studies explore how these dynamics play out in specific geographical and institutional contexts.

The findings confirm the importance of the interaction between community and society in shaping individual incentives and territorial responses to change. In general, 'bridging' forms of community and strong societal rules facilitate positive outcomes, whilst 'bonding' forms of community have broadly negative impacts on growth and adaptation. Critically, the significance and impact of community appears to be dependent on the societal environment in which it operates. Community matters most when society is weakest, but community is not simply a substitute for rules; indeed community and society appear to potentiate positive outcomes in important cases, for example near the technology frontier. Diversity – of sectors, groups, and institutions – appears to be particularly important in facilitating positive forms of community and society interaction, and in promoting adaptive economies. Overall, there is strong recursivity in the relationships, suggesting path dependency (lock-in or evolution) may be the norm.

The study contributes to understanding the 'black box' of institutions, particularly within the context of regional economies, and underlines the importance of the role of community-level forces and political economy in processes of economic growth and adjustment. It suggests there is value in pursuing the role of institutions still further, and exploring in more detail the agenda of an evolutionary economic geography.

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Chapter 1: Introduction

1.1. BACKGROUND AND JUSTIFICATION

1.1.1 Introduction

Between 1975 and 2005 the fastest growing regions in Europe expanded their gross value added (GVA) per capita by 200-250% in real terms, whilst the slowest growing regions experienced real declines in output per capita of up to 25%. Karlsruhe in Southwest Germany achieved 4.3% annual growth over this 30-year period, whilst growth Köln, just 250 kilometres north, stagnated. Similarly in the UK, Surrey grew more than 3% annually between 1975 and 2005, whilst North Yorkshire, little more than 300 kilometres away, could not manage to maintain 1% annual growth[1]. What accounts for the significant differences in medium and long-run growth experienced in different places? Why do some places appear to adapt to changing economic circumstances better than others? These are amongst the central questions of economics and of economic geography.

Over the past fifty years, economists have made significant progress in explaining the causes of growth, at least at the international level. Neoclassical models (Solow, 1956), which predict long run convergence, introduced factor accumulation as the motor of growth. Endogenous growth models (Romer, 1986), which focus on the role of technology and human capital, added further explanatory power to growth theory and helped explain the lack of convergence predicted in neo-classical models. Yet the mainstream models suffer from persistently high residuals – i.e. their models cannot account for a significant share of growth.

Economic geographers and urban economists working at the regional and metropolitan level have focused on the processes of agglomeration, specialisation, and human capital in explaining growth patterns. Based on the 'new economic geography', this wide body of research has documented how processes of cumulative causation can lead to persistent differences in growth rates between core and peripheral areas, and how the largest

[1] Source: Cambridge Econometrics (2005), *European Regional Database*.

metropolitan areas may be particularly favoured for growth in high value-added activities (c.f. Krugman, 1991; Duranton and Puga, 1999; Glaeser, 2003; Storper and Venables, 2006). Yet little of the analysis in this field has taken a rigorous, holistic approach to explaining the specific contributions of these factors, and perhaps as a result they have been unable to account for the differences in long-run growth experienced across a wide range of cities and regions over time periods of thirty years or more.

Moreover, in the real world outside all these models, it is clear that despite capital, labour, and technological factors becoming increasingly mobile, international and regional disparities persist (Rodríguez-Pose, 1998), indicating that there may well be fundamental factors shaping economic growth for which none of the existing models has been able to account.

1.1.2 The institutional turn

Despite Solow's oft-cited warning that attempts to explain differences in economic growth always end up in a "blaze of amateur sociology", in recent years researchers have recognised that indeed sociology (and not the amateur sort) as well as political economy might have something to say about it. The result has been a growing, multidisciplinary interest in the social, cultural, and institutional determinants of growth. Amongst traditional economists in particular, much of the recent work on growth theory has focused on formal, high-level institutions and the role of governance in determining economic growth. Approaches in sociology, development economics, and economic geography – most notably the research on social capital, network theory, and civil society – have instead concentrated on the meso level to understand how networks, communities, and groups shape economic, social, and political processes.

This 'institutional turn' in academic circles has been embraced in the policy world as well. International organisations like the World Bank and IMF have in recent years focused on societal institutions (e.g. property rights, rule of law, democratic governance, etc.) as fundamental preconditions to economic growth. In parallel, these same organisations, and governments at all geographical levels, have promoted local communities and social capital as critical factors for economic and social well-being.

1.1.3 *The need for a framework to bridge institutionalist research*

That the debate on the foundations of long-run growth now recognises the role of intermediate-level forces, and the subsequent need for multi-disciplinary approaches taking into account complex structure-agency interactions, is a major step forward. Yet much of the research and policy continues to take place in isolation – there is a need to bridge these often polemical approaches to institutions.

Research on networks and groups in the fields of sociology and geography contend that tight bonds of (often local and informal) association drive growth through mechanisms such as promoting trust, reducing transactions costs, stimulating knowledge spillovers, and improving governance. In contrast, much of the research from economists argues that formal rules, norms, and processes that tie together individuals under the umbrella of a broader social order establishes the necessary conditions of confidence and transparency to enable individual economic agents to flourish. This dichotomous approach has resulted in models which do not reflect the reality: that the forces of *'society'* (or formal, transparent, rules-based institutions) and those of *'community'* (informal, group-based associations and networks) co-exist at all times and at all territorial levels (Storper, 2005). They are simply alternative institutional forms, each reflecting a different way of organising the processes of interaction and exchange. Whilst one might expect there is some reflexive nature in the relationship between community and society, to date there has been little attempt to understand the nature of this interaction and the subsequent implications for economic growth.

1.1.4 *A community- society framework*

Recent research from Storper (2005) and Rodríguez-Pose and Storper (2006) has attempted to bridge these opposing positions by developing a framework of community and society as complementary institutional forms, whose balance and interactions shape the medium and long-run development prospects of territories. Their research offers a promising step in the direction of developing a more holistic growth model accounting for the complexities of meso-level social forces on economic outcomes. It may also be a powerful framework for explaining the evolution of regional economies, including the processes of adaptation and path dependence. To take this forward, however, the existing framework needs to be put within the context of a more formal model specifying the determinants of community and society and their links with economic growth. Second, further specification of the mechanics through which community and society shape institutional outcomes will allow for a more dynamic model of economic development. Finally, the model needs to be operationalised and tested empirically, both through broad quantitative analyses and through micro-level case studies. This thesis aims to address each of these issues.

1.2. AIMS, RESEARCH QUESTIONS, AND HYPOTHESES

The purpose of this thesis is to develop and test a framework on the role and dynamic interaction of group life (*community*) and societal rules (*society*) in shaping the patterns of economic growth and adaptation through their impacts on the key institutions which underpin growth. Two main research questions are posed in the study, along with a number of sub questions. Essentially, we want to know: do community and society matter? If so, how do they matter and under what conditions will they lead to positive or negative long-run outcomes? The specific questions and hypotheses of this research are as follows:

1.2.1 *Research question 1: To what degree do both community and society contribute to long run economic development and how do they interact?*

- What is the independent relationship between the forces of community and of society and various institutional pre-conditions for growth?
- How do community and society interact and how does this subsequent interaction shape the outcomes described above?
- How does the basic social structure (fragmentation and polarisation of ethnicity, language, class, religion, etc.) determine the patterns of community and society that form and what impact does this have on institutional outcomes?

We propose three hypotheses in respect to these questions:

- Hypothesis 1: Community and society both shape the institutional outcomes that are the sources of the quantity and quality of long run growth.
- Hypothesis 2: Community and society are not substitutes but are complementary – community is not simply a 'primitive' force to be replaced by the 'modern' force of society.
- Hypothesis 3: Social structure matters – in the absence of bridging, fragmentation of community will hinder development; societal rules are critical when communities are polarised.

1.2.2 *Research question 2: Through what mechanisms do community and society shape long run growth paths?*

- How do community and society impact the production function?
- How do community and society impact the functioning of political process and wider processes of policymaking and conflict resolution?
- What do the above mean for territorial adjustment processes in response to changing economic circumstances?

We propose three additional hypotheses in respect to these questions:

- Hypothesis 4: Community and society impact the levels of individual economic participation (labour force activity, investment in human capital, entrepreneurship), the transaction costs involved in exchange (search, selection, monitoring), and the rate of technological progress (innovation).
- Hypothesis 5: Community and society in interaction are the sources of public and semi-public goods (e.g. trust, participation, equality, conflict management institutions) that play a fundamental role in the functioning of the problem-solving institutions which are critical to processes of adaptation.
- Hypothesis 6: The balance between community and society shapes responses to exogenous change – greater imbalance is likely to lead to more rapid, unstable adjustment.

1.3. DELIMITATIONS

This research has a relatively wide scope and engages in debates across the fields of economics, geography, political science, and sociology. However, for practical and methodological reasons it is necessary to limit the scope of enquiry. Following are clarifications on some of these limitations:

- This thesis does not develop or test a holistic theory of community. This research is limited to understanding how communities shape institutional outcomes largely within the realm of economic life. The function of community, for example in facilitating social and individual well being, is of course much wider. Moreover, this research does not fully address the mechanics of community and network formation or the processes by which they change.
- Whilst there is an intention to contribute to theories of institutions, by no means is this research attempting to develop a theory of institutional formation or institutional change, even within the narrow confines of economic institutions. The subject is far too broad to be addressed within any single research project.
- Finally, whilst one of the hypotheses that is pursued in this research is that communities shape economic outcomes in part through the formation and maintenance of trust, this research does not attempt to develop a general economic theory of trust. Instead, we focus more narrowly on some of the likely factors involved in the formation of trust, and make macro-level observations about how trust impacts economic growth. A robust theory of trust would in addition need to model and find evidence of how trust shapes micro-economic exchange, and would need to unpack the specific characteristics of generalised and particularised trust. There is a substantial body of research working towards these issues already, and it is hoped that this research can make a marginal contribution to these wider efforts.

In addition, it is important to note that whilst this thesis proposes that the forces of community and society matter for economic outcomes, it also recognises that their impact is just one of a series of factors that influences regional growth patterns. The relative impact of community and society vis-à-vis other factors will vary across places and over time. Moreover, individual factors are likely to reinforce each other and, in doing so, contribute to regional evolutionary paths. Indeed, given the broad scope of this thesis – touching on institutions, political economy, economic specialisation, geography, and even culture – there is significant danger of retreating to a sort of 'infinite regress', whereby each factor is in turn explained by a combination of others. As per Storper (2006), we attempt in this thesis to avoid the problem of infinite regress by addressing community and society in respect to operational level institutions, and holding that community and society are at least partly independent of institutions and political structures and indeed shape these structures.

Finally, specific challenges with respect to the generaliseability and robustness arise due to the methodologies employed and the data available. These are discussed in Chapter 8.

1.4. METHODOLOGY

In addressing the research questions posed in this thesis, we have chosen a methodology that combines quantitative and qualitative techniques. The aim of this approach is to first prove a broad, predictive relationship between the forces of community and society and the institutions that underlie growth, and then unpack the relationships suggested by the quantitative research in order to explain how these dynamics play out in specific geographical and institutional contexts.

To do this, we first undertake cross-country regressions, analysing the forces of community and society against a number of dependent variables from three institutional domains: the microeconomic environment, social policy, and problem solving. Ordinary least squares (OLS) regressions are carried out in three stages. In the first stage community and society are regressed against institutional outcomes to assess their independent relationship. In the second and third stages new variables are created by isolating 'high' and 'low' levels of society and interacting community variables against these, before regressing the new variables against our institutional dependent variables. Detailed explanations on the methodology and empirical strategy are provided in Chapter 4.

The aim of the case study component of this research is to test the results of the quantitative analysis, and gain a richer understanding of the dynamics through which community and society forces shape processes of adaptation in specific micro-economic contexts over a period from the 1970s through the early 2000s. The research employs a comparative case study methodology. Two sets of paired cities are analysed, each of which faced a relatively similar set of economic changes and challenges at the outset of the 1970s. These are: Leeds and Sheffield (England) and Montréal and Toronto (Canada). The city-region level was selected as the unit of analysis as it is the hypothesis of this research that the region is the spatial level at which the dynamics of community and society forces play out most clearly. Within each case, both cities come from the same country, in order to control as much as possible for macro-level economic, political, and geographical affects. The research was conducted through semi-structured elite interviews, supported by analysis of secondary sources. Further detail on the methodology for data collection and analysis on these case studies is presented in Chapters 5 and 6.

1.5. OUTLINE OF THESIS

The remainder of this thesis is set out as follows:

Chapter 2 introduces the concepts of community and society as institutional forms, and reviews the existing theoretical and empirical literature on institutions and economic development within the context of community and society. Using the research of Rodríguez-Pose and Storper (2006) as a point of departure, in Chapter 3 we present a theoretical framework for how community and society determine long-run development paths of regions by shaping processes of microeconomic exchange and adaptation to change. Chapter 4 reviews the results of the cross-country regressions testing the predicted relationship between community and society and institutional outcomes. Following this, we present the findings from the case study research on Leeds and Sheffield (Chapter 5) and Montréal and Toronto (Chapter 6). In Chapter 7 we synthesise and discuss the findings from these case studies. Finally, Chapter 8 summarises the overall findings and conclusions from the thesis and suggests areas for future research.

Chapter 2: Conceptual overview and review of related literature – community, society, and institutions

2.1. INTRODUCTION

This chapter introduces the concepts of community and society as two fundamental levels at which the institutional foundations of economic development can be analysed. We then review the existing theoretical and empirical literature on institutions and economic development within this community-society framework. The aim of this review is to understand how far the literature has come in developing a common understanding of the institutional foundations of economic growth. We demonstrate that whilst the literature to date has succeeded in unpacking many of the critical components of community and society with relation to the economy, it has not satisfactorily addressed the interaction of these forces or the channels through which they determine the trajectories of economic growth.

2.2. AN OVERVIEW OF COMMUNITY AND SOCIETY

2.2.1. Introduction

Since the origins of European sociology more than a century ago, the concepts of 'community' and 'society' have been used to describe the fundamental levels at which individual behaviour is mediated by institutions. Against the backdrop of the culminating stages of industrialisation, Toennies (1887) argued for the critical role of traditional family and community bonds (*gemeinschaft)* over formal, arms-length relationships (*gesellschaft*) for the maintenance of social order. Durkheim (1893) similarly saw a transition from community (*solidarité méchanique)* to society (*solidarité organique*) as the dominant mode of governance, but his view was somewhat less normative. For him, the transition to society involved a necessary evolution of interpersonal relations from one of collective consciousness to one of interdependence resulting from an increasing specialisation of labour. As a result, formal contracts would replace the "solidarity of similarity" as a means for governing exchange (Beckert, 2002, p. 84). Weber went further, arguing that only the formal, rational structures of society (as opposed to the closed bonds of community) were compatible with a modern market economy. From Weber onward the focus of most social sciences literature shifted toward explaining the dynamics of structuring anonymous social relations, punctuated by frequent concerns about the 'loss of community' the risks of alienation and excessive individualism of the modern capitalist society (c.f. Polanyi, 1944; Bell, 1976).

From these classical origins, both community and society have been at the centre of vibrant literatures in recent years. Starting from the late 1980s and intensifying since the turn of the century, the notion that community is not necessarily a brake on social progress, but potentially an integral driver of it has re-emerged across a wide range of academic and policy disciplines. This has been seen in the communitarian literature of Etzioni (1995, 1996), and in the concepts of 'social capital' (c.f. Coleman, 1988; Putnam, 1993; Fukuyama, 1995) and 'civil society' (Douglass and Friedman, 1998). It has also been implicit in much of the 'new economic geography', which has focused on the role of networks, firms, communities of practice, and meso-level formal and informal associationalism to explain local agglomeration and territorialised competitive advantage (c.f. Storper, 1997). The importance of societal institutions such as market rules, property rights, and formal government structures has also been 'rediscovered', particularly within the fields of economics and political economy. This has been led by the work of the New Institutional Economics (NIE) school (c.f. North, 1990, 1996, 2005; Greif, 1997; Williamson, 2000), along with studies of 'comparative economics' and 'varieties of institutions' (c.f. Rodrik, 1999; Djankov et al, 2003; Rodrik, Subramanian, and Trebbi, 2004; Acemoglu, Johnson, and Robinson, 2004; Acemoglu and Johnson, 2006b).

2.2.2. Community

'Community' is used, variously, to refer to diverse forms of associational life, but beyond this there appears to be little agreement. In an investigation into 94 different studies on community, Hillery (1955) found virtually no consensus on the definition beyond the fact that "people are involved" and it involves some form of "social interaction". A more recent definition from Bowles and Gintis (2001, p.3) similarly describes community rather amorphously as a "group of people who interact directly, frequently, and in multi-faceted ways". In the contemporary literature, communities often, but not always, refer to direct or indirect interpersonal ties between people, including 'bonds' and 'networks'. Like Toennies' initial construct, most of the recent literature positions community as a normative concept with effectively a moral underpinning (Gold, 2005). Indeed, in his entry on 'community' in *Keywords* (1976, p. 76) Williams notes that "unlike all of terms of social organisation (state, nation, society, etc.) ... seems never to be used unfavourably". Any objective and holistic definition of a structural sociological phenomenon like community should, however, describe both components of which it is comprised (*what binds this group of people together*?) and how it manifests itself (*in what ways do they interact and what is the outcome of this interaction?).*

A starting point for understanding the role of communities is to explore the foundations around which they form. Traditional descriptions of community, like Toennies' *gemeinschaft*, focus on solidarity deriving from strong bonds of immediate family and wider clan or tribe. Durkheim's *solidarité méchanique* similarly views community as social cohesion determined not by rationality but strong interpersonal bonds supported by a deep-seated sense of shared identity resulting from 'likeness' (Durkheim, 1893). Much of the political economy literature starts with the assumption that ethnic distinctions are not only socially relevant but form the basis around which interest groups or political coalitions form (Fearon, 2004). Community is also often depicted in a spatial context: as a place, a neighbourhood, village, or small town. In many traditional societies, however, such descriptions may amount to little more than spatial manifestations of tribal or kinship ties.

But individual and group identities are formed around more than simply primitive bonds of clan, ethnicity, and religion. Moreover, although location remains an important determinant of their formation and face-to-face contact continues to be critical to sustain norms and social networks (Storper and Venables, 2004), communities are becoming increasingly distanciated in modern society (Giddens, 1990). Individuals are now as likely to recognise themselves as members of a global community – e.g. Amnesty International, the global Islamic community, or Manchester United supporters – as they are of a local neighbourhood. Traditional physical community structures are being replicated in online environments (Norris, 2002). Growing specialisation and mobility of labour, expansion of leisure time, and the dissemination of communications technology, have made communities of interest (e.g. organic gardening, computer games, or fair trade) and communities of practice or epistemic communities (e.g. a network of scientists studying climate change, a network of computer hackers, or a cancer survivors group) the most common frameworks for community formation. Indeed most individuals now identify with multiple groups and participate in several, often overlapping communities (Sen, 2006). In the context of modern societies, even members of residence-based communities (e.g. local neighbourhoods) are as likely to find their solidarity through encapsulated interest (Hardin, 2002) – or 'being in the same boat' – as from any primitive or mechanical bond.

But even solidarity around shared interest – whether emerging from non-rational or more instrumental bonds – is not in itself a sufficient condition for defining a community. Instead, it merely offers attributes around which a community may form. Whether these bonds are activated or remain latent is a function of whether and how sets of overlapping individual preferences are aggregated and mobilised into an operational community. The degree to which individual preferences overlap, and the degree to which non-rational preferences like norms and traditions shape individual preference sets, will in part determine the likelihood of formation of active communities (Arrow, 1963; Sen, 1987), whether durable (e.g. religious or ethnic) or short-term in nature (e.g. action committees). But mobilisation of preferences also typically requires leadership and often an exogenous shock (e.g. a real or perceived threat to the norms or preferences held by the group). Once mobilised through communities, preferences are themselves shaped on an ongoing basis by actions and evolving norms of those communities (Veblen, 1899).

Communities shape social interaction by structuring individual preferences, expectations, and behaviours. Such interaction may involve two individuals engaging in a social exchange or the mobilisation of an entire community through collective action. In either case, the emphasis of social interaction in the community literature is normative, stressing the fundamental role of community in facilitating *cooperative engagement*. This is perhaps most apparent in the social capital literature, which has emerged as the most active field of research emphasising community. For example Boix and Posner (1998, p.1) define social capital as "a set of institutionalised expectations that other social actors will reciprocate cooperative overtures". Woolcock (2001, p.13) defines social as "the norms and networks that facilitate collective action"; Fukuyama (2000, p.1) similarly defines it as an "instantiated informal norm that promotes cooperation between two or more individuals". Three interlinked and mutually reinforcing components of community which facilitate these processes of cooperation are: *interpersonal networks, trust, and norms and sanctions.*

Interpersonal networks are the foundations of communities, as they instantiate community relations and give rise to communitarian institutions (Dasgupta, 2005). Individuals are embedded within interpersonal networks which determine their patterns of social exchange. The nature of these networks varies in strength, depth, and familiarity, described in the network literature as 'strong' versus 'weak' ties (Granovetter, 1973) and analogously in the social capital literature as 'bonding' versus 'bridging' social capital (Putnam, 2000). In either case, not only are interpersonal networks the physical manifestation of communities, they are also the basis for interaction that produces and reproduces norms, so reinforcing solidarity and group identity.

Cooperation within these interpersonal networks is ultimately possible because of the *trust* that exists amongst community members. Trust, or more specifically trustworthiness, can be defined as "my expectation that you will act in a way that I can expect you to act" (Hardin 2002, p.41). Trust reduces risk and uncertainty in social exchange and is thus fundamental to facilitating cooperation and collective action. Communities underpin trust by providing a basis upon which individuals can assess the trustworthiness of others. Trust exists in different forms. Particularised trust is normally defined as trust between specific individuals in specific situations. It is determined by knowledge, experience, and reputation and thus interpersonal networks play an important role in facilitating it. Granovetter (1985) suggests that network effects can magnify the benefits of trust, so that a combination of strong and weak ties can facilitate broad trust. Generalised trust by contrast is defined as trust in individuals with whom one does not have an ongoing relationship. The social capital literature places substantial emphasis on generalised trust as a key outcome of community. However, generalised trust operates not just within communities but also across, enabling individuals to bridge with others outside their families and intimate communities (Uslaner and Conley, 2003) and therefore forming a society-wide asset.

Generalised trust is underpinned by norms, the unwritten but understood rules of behaviour that define what is expected and acceptable. Norms are the primary channel through which deeply held cultural and religious beliefs and practices shape communities. Communities are critical not only for the production of norms, but also for their reproduction; through interpersonal networks, the process of ongoing community socialisation results in individuals internalising group norms (Portes, 1998). Norms are upheld by group monitoring, and enforced through sanctions, often focused on reputation but sometimes including more formal mechanisms of reprimand and/or retribution. The social capital literature focuses on one generic norm, that of generalised reciprocity, as being critical to facilitating trust within communities. Putnam (2000, p.21) describes it as: "I'll do this for you without expecting anything specific back from you, in the confident expectation that someone will do something for me down the road". Generalised reciprocity is seen as a key asset of communities, resulting from high levels of trust and further underpinning trust through a 'virtual circle' of ongoing reciprocal obligation. Indeed, the word community itself derives from the Latin *munus*, which means both 'duty' and 'gift' (Gold, 2005), suggesting mutual obligation that is bound by social expectations.

2.2.3. Society

'Society' is used, for the most part, to refer to formal institutions operating over wider spatio-temporal scales; it is generally considered to operate at a higher spatial scale than that of community. The emphasis is on rules that structure large-scale, relatively anonymous and transparent relationships. North (1990) notes that it is not simply the rules that matter, but also their enforcement characteristics; thus the emphasis in much of the institutionalist economics literature on issues of governance.

Neo-classical theory has no need for institutions, instead assuming that utility maximising individuals satisfying individual preferences will result in efficient and socially optimal outcomes. However most economists now accept that in the real world of imperfect information, incomplete contracts, and sunk costs constraints are necessary to structure interactions amongst preference-satisfying individuals and thus to control moral hazards, commitment problems, and negative externalities. Indeed, many economists argue that institutions affect the very formation of agents' preferences by restricting the range of options from which they may choose (Sen, 1977). Much less consensus exists, however, over how these institutions arise. Historical Institutionalists view societal institutions as top-down structural constraints imposed by the polity in order to structure the possibilities and interactions of competing groups in society (Hall and Taylor, 1996). By contrast, scholars of the NIE and other rational choice institutionalists argue that self-interested behaviour restricts the possibility of spontaneous cooperation in any complex situation, as a result of uncertainty raising the risk premium to unacceptably high levels (North, 1990). As a result, they suggest that formal institutional mechanisms are devised by agents explicitly to reduce this level of uncertainty and make possible cooperative exchange.

Society includes both informal rules and formal constraints. Williamson (1985) and North (1990) view societal informal and formal constraints as part of an overlapping set of institutions that operate at different levels of complexity, formality, and durability. Informal constraints include norms, conventions, mores, and traditions – aspects that are often labelled as 'culture'. These are viewed as fundamental structuring variables that shape the way individuals view the world, and as such determine the nature of institutions and the way they function. Such cultural aspects of society are generally viewed as having deeply historical roots and, as such, change only over very long periods of time. Hofstede's (1980) well-known research on cultural dimensions suggests that, at some broad level at least, it is possible to define norms of behaviour that have crossed individual group bounds and been internalised across society. However, it is also quite likely that norms exist in a cascade of ever more subtle, unique cultural patterns of individual communities. Thus isolating norms that are truly 'societal' is difficult.

Institutionalists tend to see formal constraints as emerging out of or on top of informal constraints, as the complexity or cultural diversity of a society increases. When cooperation between individuals cannot be ensured through shared preferences and internalisation of cultural norms, more formal mechanisms are required to enforce these norms and maintain acceptable levels of uncertainty. Formal aspects of societal institutions tend to coincide closely with the mechanisms of the state, although this need not be the case. Some of these formal components, what both Williamson and North referred to as the 'rules of the game' (broad constitutions and statutes) are relatively durable, whilst others (regulations and laws) are more likely to be shaped by the polity within a relatively short time frame. North underlined this political nature of institutional formation in noting that the nature and structure of formal institutions was not designed to ensure efficiency or level the playing field but rather to "serve the interests of those with the bargaining power to create new rules" (North, 1996, p.3).

Finally, what North called the 'enforcement characteristics' of these formal and informal constraints is critical to the definition of societal institutions. Indeed enforcement could be viewed as a societal-level equivalent to community's role in coordination within capitalist modern economies (Greif, 1997). Enforcement matters because the effectiveness and efficiency with which it is carried out determines the effectiveness and efficiency of the institutions themselves. Individual agents must be confident that the rules or norms imposed by societal institutions will be enforced consistently and fairly regardless of the individual or group in question. Where this is not the case, both institutionalised confidence and generalised trust can be undermined. Equally important are the resources required to carry out this monitoring and enforcement. Where the institutions are highly internalised across society, self-governance is possible. Anything outside of this incurs cost, whether in time, money or both.

Thus, like communities, societal institutions serve to facilitate cooperation and collective action amongst individuals. But whilst communities tend to focus on trust-based relationships and interpersonal networks, societal institutions emphasise formal constraints and anonymous exchange.

2.3. RELATED LITERATURE ON INSTITUTIONS AND ECONOMIC DEVELOPMENT

2.3.1. Introduction

Toennies, Durkheim, and other early writers on the subject were interested in community and society mainly as mechanisms for maintaining social order. Much of the modern literature on community maintains a focus on social cohesion (c.f. Jacobs, 1961; Fukuyama, 1996; Etzioni, 1997); similarly much of the literature on society is engaged primarily with understanding the political processes through which social choice is revealed (c.f. Steinmo, 2001; Djankov et al 2003; Acemoglu and Johnson, 2006a). However, community and society also have powerful impacts – both direct and indirect – on the economy. In recent years, there has been increasing emphasis across the social sciences in understanding how both these institutional forms shape economic outcomes. Significant theoretical and empirical progress has been made, despite the substantial challenges of 'fuzzy' concepts and the lack of availability of high-quality datasets.

2.3.2. *Community*

Many of the limited studies on the impact of community on the economy have focused on micro-level studies of interpersonal networks, including ethnic entrepreneur and employment networks (Saxenian, 1999; Waldinger, 1997). However, in the past decade economists, geographers, and sociologists have begun to take an interest in understanding the links between community and economic growth more broadly. This has been advanced most ardently in the research on social capital and on trust, where there have been three broad types of studies. One set of studies operationalises social capital as trust and tests this against economic outcomes. A second set of studies has been more concerned with testing Putnam's proposition that horizontal associationalism drives trust and improved economic performance. Finally, there has been substantial research on how the heterogeneity of social structures impacts trust and growth. A summary of the findings of some of the main studies is presented below.

The empirical research suggests that a broad consensus may be beginning to emerge on the positive association between trust and economic growth. Knack and Keefer (1997) in the first major cross-country social capital study show that a 15% increase in trust is associated with a 1% increase in GDP, an impact nearly as great as that for primary education. Further studies (Zak and Knack, 2001; Knack, 2003; Beugelsdijk and van Schaik, 2004; Bengtsson, Berggren, and Jordahl, 2005) uphold the link between generalised trust and growth. However, the most recent research by Beugelsdijk and van Schaik (2005), conducted across 54 European regions, does not find trust to be correlated with growth at the regional level.

Overall, concerns have been raised about the instrument used to measure trust in most of these studies (Glaeser et al, 2000) and specifically on the mismatch between micro-level theory and macro-level empirics (Beugelsdijk, 2005, 2008). More fundamentally, it remains unclear whether trust is a cause, consequence, or the operational version of social capital (Beugelsdijk, 2005). Consequently empirical studies that link trust with growth beg the question of the channels through which it impacts growth; to date only a recent study by Bjornskov (2006) has begun to try to trace these channels.

More critically for the purposes of this paper, linking trust with growth by no means proves a role for community unless it can be shown that community is a fundamental determinant of trust. Where the empirical research on community is probably most advanced is in defining the relationship between heterogeneity of social structures and trust. There is a clear consensus in the literature that the most important determinant of generalised trust in a society is the degree of social distance within it. However, whether ethno-linguistic differences (Knack and Keefer, 1997; Zak and Knack, 2001; Knack and Keefer, 2001) or socio-economic and class differences (Zak and Knack, 2001; Bjornskov, 2005; Rothstein and Uslaner, 2006) are more important is unclear.

But looking beyond the structural aspects of community to its operational form – networks and formal associations – the research to date is less clear on the impact of community on trust and ultimately growth. Putnam's work in Italy and America (Putnam 1993, 2000) suggests that higher levels of community associationalism, measured through group membership, facilitate trust. However, a number of researchers including Stolle (1998), Whiteley (1999), Newton (1999), and Uslaner (1999) argue that the causality runs the other way, with group association comprising self-selected 'trusters'. Knack and Keefer (1997) find that membership in formal groups is not associated with trust or with improved economic performance. Bjornskov (2006) shows that the positive economic outcomes attributed to aspects of social capital are almost entirely attributable to trust, and that trust is only weakly associated with other aspects of social capital like community associationalism. Beugelsdijk and van Schaik (2005) find a positive relationship between associational activity and growth across European regions; however, they find that this relationship holds only for active and not passive membership. Knack (2003) also finds only limited evidence of a relationship between group membership and economic outcomes. In one of the few cross country studies exploring at the links between social capital and innovation, Dakhli and De Clercq (2003) find only weak support for the positive effect of trust and associationalism on innovation.

Like the trust empirics, studies on associationalism have been criticised for their inability to determine causality (c.f. Sobel, 2002; Durlauf, 2002; Routledge and von Armsberg, 2003). Further criticism of social capital studies question whether membership in formal organisations is an appropriate proxy for the broader formal and informal nature of associationalism (Baccaro, 2002), and indeed on whether membership itself matters at all (Knack and Keefer, 1997; Boschma, 1999). A number of researchers have attempted to define broader measures taking into account such factors as local identity, political and other forms of civic participation, and, critically, the depth and strength of interpersonal networks.

What is becoming clear from the most recent empirical on community associationalism is that it is not contact per se that matters in terms of building trust and facilitating positive economic outcomes, but rather the context and nature of that contact (Uslaner, 2006). For example, Beugelsdijk and van Schaik (2003) find that associationalism matters, but only if it involves active volunteerism and not simply passive membership. In a study of ethnic Chinese immigrants in California, Uslaner (2003) shows that bridging interactions, or 'weak tie' networks, are highly associated with generalised trust, whereas interaction within closed, bonding groups is not. This is supported by Stolle (1998), who finds that greater group diversity is associated with higher trust whereas strong in-group associations reduce trust. Recent research in Italy (Sabatini, 2006) provides further support for the positive affect of 'bridging' ties, in this case on the quality of economic development outcomes.

2.3.3. Society

The theoretical work of North and the New Institutionalists on the relationship between societal institutions and economic development gave rise to a substantial body of research on the institutional determinants of growth over the past decade. Most of this has come in the fields of economic growth theory and political economy, and has focused on how the quality of fundamental institutions of market economies (e.g. property rights and the rule of law) determines economic growth paths. Many of these studies place equal emphasis on the role of political institutions as the fundamental determinants of the quality of these economic institutions.

Initial research by Knack and Keefer (1995) and Hall and Jones (1999) shows that incomes, productivity, and growth across countries can be explained by differences in institutions and government policy. Following on from this, one set of studies has focused directly on testing institutions as a driver of trade and economic growth. This research suggests a powerful relationship between the institutional manifestations of society and economic growth. In one of the first important studies in this area, Acemoglu, Johnson, and Robinson (2001) use settler mortality rates as an instrument to establish an association between institutional quality and income level. Rodrik, Subramanian, and Trebbi (2004) show that institutions far outweigh trade and geographical factors as an explanation for income levels across countries. Much of the research within this stream (c.f. La Porta et al, 1999; Vijayaraghavan and Ward, 2001; Acemoglu and Johnson, 2006b) focuses on identifying the broad governance institutions that shape economic outcomes. A related set of studies, including Easterly (2001; 2000), Rodrik (1999), Persson (2001), Alesina, Baqir, and Easterly (1997) emphasise the interplay between social structures, conflict management institutions, and growth. They find consistently that fractionalisation and inequality (on ethnic, class, and religious lines) leads to reduced production of public goods and lower economic growth in the absence of effective institutions to mitigate the inherent distributional conflicts. For example, Easterly (2000) argues that ethnic fractionalisation lowers growth as the consequence of wars of attrition between rival groups over scarce resources, and through an inability to agree on public goods priorities. He shows empirically that where good institutions are in place, such negative growth consequences are mitigated.

Another strand of research focuses on the political rules and structures that shape these economic institutions, and ultimately determine economic development trajectories. These have shown that openness of political and economic participation is critical for institutional quality and economic growth. For example, Stasavage (2000) finds that political institutions with checks and balances can constrain governments from engaging in ex-post opportunism, thus facilitating credibility and ultimately investment. Aghion, Alesina, and Trebbi (2002) find that the degree of political competition and the limits of power placed on political leadership are highly associated with positive institutional outcomes and, ultimately, higher growth. Similarly, in a study of 19 Latin American countries, Campos and Nugent (1998) show that their index of institutional development is strongly associated with growth levels, and most importantly that the key institutions are those that give agents voice and a stake in the system, thus reducing the incentives to engage in rent seeking and facilitating investments in human capital. Finally, Persson (2003) looks at constitutional arrangements and shows that the selection of electoral rules and government forms are strongly associated with both economic policy choices and corruption.

Despite the growing empirical consensus and the relatively strong theoretical foundations, there remains a lack of clarity over the definition of institutions: different studies measure institutions at varying levels of granularity (Jutting, 2003; Glaeser et al, 2004). A number of researchers (Dollar and Kraay, 2003; Pande and Udry, 2005; Bennedsen and Vinten, 2005) criticise what they see as the poor quality of instrumental variables being used in the studies, and the lack of consensus in the literature around these variables. Perhaps the biggest concern with the empirical research on societal institutions and economic growth is the problem of endogeneity. There is strong evidence to suggest that substantial recursivity in the relationship: increased economic growth tends to result in improved economic and political institutions, not (or at least not only) the other way round (Aghion, Alesina, and Trebbi, 2002; Edison, 2003; Jutting, 2003; Glaeser et al 2004). A related criticism is that determinations of 'good' institutions are subjective and some cases tautological – 'good' institutions are often defined to exist where economic outcomes are positive (Edison, 2003; Hansson, 2006).

In addition to the criticisms of empirical studies, there also remains substantial scepticism over the degree to which societal institutions are indeed a substantial determinant of growth. A recent study by Glaeser et al (2004) argues that human capital is the foundation of growth, and that institutions are just one of the channels through which human capital shapes it. Another study (Aghion and Howitt, 2005) suggests that the findings of the institutionalist research have been over-generalised and that, whilst institutions and policy decisions surely matter, they do so only as factors within a growth paradigm that is fundamentally Schumpeterian. Others (c.f. Tabellini, 2005) contend that institutions are simply the pathways through which deeper determinants – in particular culture – shape economic development outcomes.

2.3.4. The interaction of community and society

Very little theoretical or empirical work has addressed the interaction between the two forces in anything more than a cursory way. This is particularly true of the society literature, which for the most part focuses on the relationship between societal institutions and individuals, with limited regard for the role of groups in structuring individual behaviour and in shaping these institutions. The community literature tends to at least recognise the existence of societal institutions, however in most cases it views society as an alternative and often-incompatible mechanism to community for structuring behaviour. Similarly, work from geographers and economic sociologists tends to ignore the fact that individuals are embedded not only in social networks but markets and other higher level institutions (Sunley 2008).

There is, however, a growing body of research that has recognised in some form the interaction of community and society, and a few which haves attempted to explain how this interaction plays out in economic and political spheres. These studies are reviewed briefly in this section.

Social capital literature tends to regard the structural outcomes resulting from societal institutions – in particular the degree of social and political equality (Boix and Posner, 1998) – as important determinants of the cooperative capacity of communities. Yet Woolcock (2001, p.7) criticises majority of the social capital literature for failing to take sufficient regard of the "broader institutional environment in which communities are inherently embedded" and stresses the mutually reinforcing importance of high quality institutions on social capital formation. In a review of the historical development of civil society in Denmark, Kasperson (2002) argues that the institution of the state is in fact a precondition for the development of community. Describing how voluntary organisations are funded by the Danish state, which in turn mandates openness and democratic governance from them, he suggests synergistic relationship between state institutions and community groups. This proposition is supported by Evans (1997) and by Heller (1996) who describes the mutually reinforcing role of community groups and state institutions in the formation of social capital in Kerala. Fafchamps (2006) probably goes furthest in explicitly addressing the interaction of community and society within the social capital framework, noting the possible negative distributional consequences of community on its own, and the importance of both strong community *and* strong institutions in supporting efficient social exchange and public goods provision.

Despite the interest in societal-level outcomes of community associationalism, relatively few researchers have actually addressed the important role of societal institutions to mediate the inevitable conflicts that arise from the discordant preference sets of mobilised communities. In one study that has addressed this, Freitag (2006, p. 131) provides an empirical assessment of the links between political institutions and social capital across Swiss cantons, concluding that community associational life is "reliant on the capability of political institutions to mediate conflict by hearing, channelling and mediating the various citizen demands that modern societies express through voluntary organizations". Within the literature on economic growth, there has been no substantial research looking at the role of groups or communities. However, the research on conflict, institutions, growth (c.f. Easterly and Levine, 1997; Rodrik, 1998; Easterly, 2000; Easterly, Ritzen, and Woolcock, 2006) does address the issue of conflict management across communities by showing theoretically and empirically how inter-group conflict and weak institutions of conflict management combine to stifle growth. However, the focus in this set of literature is on communities and groups only in so far as they represent latent sources of conflict or cleavage. As such it provides little explanation of how communities are mobilised and sustained, and the mechanisms by which they interact with the institutions of society.

Economic geographers have devoted considerable attention to understanding how specific characteristics of local economies (particularly those that are untraded and associational in nature) determine competitiveness. As such, they have perhaps gone furthest in incorporating a role for both informal associational forces as well as formal institutional ones in microeconomic contexts. Amin and Thrift (1994) describe economic life as a "socially embedded" activity and "institutional thickness" as being favourable to economic development. Storper's (1995; 1997) conceptualisation of "relational assets" and "untraded interdependencies" identifies a mechanism through which the embeddedness of local actors can shape economic processes and confer territorialised benefits. The research on new industrial districts emphasises the importance of inter-firm cooperation (c.f. Beccattini, 1990; Antonelli, 1994; Farrell and Knight, 2003) as well as localised knowledge spillovers (Saxenian, 1994; Scott and Storper, 2003) in driving the success of regions as diverse as Silicon Valley, Baden-Württemberg, and 'Third Italy'. The innovation systems and learning region literature draws on a similar relationship between geographical agglomeration, trust, inter-firm cooperation, and anchoring institutions (c.f. Lundvall, 1992; Florida, 1995; Cooke and Morgan, 2000). Finally, substantial advances to the concept of 'relational assets' in recent years have shed further light on the reflexive and evolutionary nature of institutions and agents across space (Bathelt and Glückler, 2003; Bathelt, 2006), the role of networks (Hess, 2004; Grabher and Ibert, 2006; Glückler, 2007), the firm as a collective actor (Maskell, 2001; Yeung, 2005), the importance of local proximity in knowledge transmission (Leamer and Storper, 2001; Gertler, 2003; Storper and Venables, 2004), and the geography of learning and innovation (Gertler, 2001; Bathelt, Malmberg, and Maskell, 2004; Bathelt, 2005)

The links between community and society, and particularly the role of institutions as a mediating channel, have also been tentatively addressed in recent years within the broad literature on civil society. In contrast to the institutionalist literature, which looks at the role of the individual in interaction with societal institutions, the civil society literature focuses on the role of groups or communities in interaction with the institutions of the state. Uphoff and Krishna (2002) attempt to clarify the definition of civil society, presenting it as a network of relationships between state institutions and citizens. Critically, they argue that state/society and community are complementary rather than oppositional forces. Similarly, Bowles and Gintis (2001) argue that well-designed institutions make communities, markets, and states complements, and therefore that institutions are the foundation around which state-community synergy may be based. Evans (1997) develops a concept of "state-society synergy"[2], whereby strong institutional ground rules and political competition, in combination with egalitarian social structures establishes the institutional conditions for sustainable economic and social development.

Finally, in a series of papers by Daron Acemoglu and colleagues (Acemoglu, Johnson, and Robinson 2004; Acemoglu and Johnson, and Robinson 2006a; 2006b; Acemoglu 2006) has bridged economic growth literature and the institutionalist approach, and in doing so has come closest to developing an holistic model of institutional change and economic development. By introducing the concepts of *de jure* and *de facto* political power, they also create a framework that allows for consideration of the role of groups in shaping both types of political power. However, the role of groups remains implicit in their model, with *de facto* political power being defined as simply a function of group resources rather than also taking into account a group's capacity for collective action. In addition, the model does not take into account that different institutional forms (e.g. formal society institutions versus institutions of community) result in

[2] Confusingly, 'society' in the definition used in this work by Evans is more or less equivalent with the definition of community that has been used throughout this chapter.

different combinations of quality and cost, and so several equilibrium outcomes may result, possibly differing substantially in how close they come to offering Pareto efficient outcomes.

2.4. WHERE DOES THIS LEAVE US?

It is clear that the social sciences have made enormous progress in recent years understanding the role of institutions in economic development. But it is also clear that much work remains, and indeed that new, unanswered questions have been raised as a result of this work. Whilst substantial progress has been made in unpacking the role of community in economic life, there remains no consensus of the fundamental mechanisms through which community shapes growth on a macro level. In addition, it is unclear whether community is exogenous – i.e. it promotes economic performance and democracy – or endogenous – i.e. it is the outcome of social and political arrangements (Levi, 1996; Tarrow, 1996; Skocpol, Ganz, and Munson, 2000). Moreover, although some research suggests a recursive or at least co-determined relationship between community and institutions of society, this relationship has not yet been explored in any detail.

On the side of society, the existing research has made two important breakthroughs in recent years. First, despite the legitimate concerns over aspects of the empirical work, it has shown quite clearly that societal institutions matter. Second, it has begun to lay the theoretical groundwork for explaining *why* institutions matter and how these institutions are shaped. Promising ongoing research includes work developing the foundations of these political institutions (c.f. Acemoglu 2006; Acemoglu and Johnson 2006b), and theoretical and comparative analysis of specific institutions (c.f. La Porta et al, 2003; Botero et al, 2004; Acemoglu and Johnson, 2006b). Yet at this stage societal institutions remain somewhat of a 'black box'. The literature has yet to explain *which* institutions matter, *when*, and *how*. Whilst it is now accepted that better institutions lead to better economic outcomes, it is not yet clear what makes an institution 'good'. Thus, the fundamental gap in economists' understanding of institutions can be seen in the fact that they have been unable to explain why similar institutional forms result in very different economic outcomes in different places. Moreover, the critical process of institutional change remains poorly understood. Finally, and perhaps consequently, the current research still largely treats society as operating in a vacuum, paying little regard to the dynamics by which communities determine institutional outcomes. Although much of the institutionalist literature from the field of economics (e.g. Easterly, 2000; Acemoglu and Johnson, 2006a) accepts the influence of groups at least in political processes, their role in shaping institutions and economic outcomes is poorly developed theoretically and almost never operationalised outside of the narrow confines of social capital research.

And whilst the recent literature provides important theoretical input on the respective roles and interaction of community and society, its value in explaining how they shape economic outcomes remains limited for several reasons. First, the literature has been largely descriptive, with the growing body of theory supported by only limited empirical work, mostly single region or historical case studies. Possibly as a result of the limited empirics, the literature largely fails to explain why in some cases similar economic outcomes result in territories with very different types of community or combinations of community and society. In addition much of the literature, particularly from the field of economic geography, is focused only on specific micro-economic contexts – e.g. innovation, labour markets within agglomerations, the process of knowledge creation and diffusion – and consequently has not attempted to explain economic growth on a more generalised basis. In Chapter 3 we aim to take a step toward a broader framework by describing how community and society shape economic institutions.

Chapter 3: Theoretical framework – how do community and society shape economic action, growth, and adaptation?

3.1. INTRODUCTION

This chapter introduces a theoretical framework for how community and society structure cooperative exchange and thereby shape economic development. We begin by reviewing the community-society framework developed in Storper (2005) and Rodríguez-Pose and Storper (2006), which forms the theoretical basis for this thesis. We then go on to develop a basic model describing how the interaction of community and society shapes the processes of microeconomic exchange and the evolution of problem solving and learning institutions. Finally, we extend this framework to explain how the institutional outcomes resulting from the impact of community and society may help explain long-run economic development and adaptation in regional economies.

3.2. THE FRAMEWORK OF RODRÍGUEZ-POSE AND STORPER

This thesis is based on the broad theoretical framework outlining the relationship between community, society, and economic development developed in Storper (2005) and Rodríguez-Pose and Storper (2006). Their analysis posits community and society as complementary forces whose balance and interactions shape the medium and long-run development prospects of territories. Central to their hypothesis is the idea that the interaction of community and society defines the institutional parameters that shape growth trajectories.

Storper (2005) sets out a framework describing how the interactions of community 'bonding' and society 'bridging' determine the incentives of individual economic agents across three fundamental foundations of long-run development: micro-economic confidence, social policy, and problem solving[3]. They posit that when community and society are in favourable interaction they potentiate the positive incentives of each force whilst acting as a 'check and balance' against the emergence of the negative or inefficient incentives that are inherent in

[3] As derived from Rodrik (2003)

each. Specifically, they argue that the beneficial effects of community – reducing transactions costs and supporting the 'autonomy' of individuals, thus facilitating economic and political participation – is realised only when the moral hazards of agents are constrained by the 'responsibility' of societal rules. Similarly, the beneficial effects of society – restricting the abuse of power by any one group and thus promoting 'responsibility' through competition, resulting in greater efficiency and innovation – is realised only when active communities mobilise preference to give voice ('autonomy') to individuals who would otherwise go unheard. As a result, the framework suggests that optimal socioeconomic outcomes occur when community and society are both strong and in relative balance; worst-case outcomes occur when both community and society are weak. In intermediate scenarios – where there is a substantial imbalance between community and society – outcomes are suboptimal, which may be manifest in lower levels of growth or lower quality of growth (e.g. high inequality, poor economic adjustment, excessive volatility, etc.)

In Rodríguez-Pose and Storper (2006) the framework is extended into a dynamic context, showing how changes in the balance of community and society will shift the position of territories within the field of possible outcomes and thus impact their medium and long run development prospects. These changes can occur from either exogenous (e.g. war, technological change, global economic shocks, etc.) or endogenous (e.g. revolution, devolution, the emergence of a new organised group, etc.) sources, or a combination of the two. According to their framework, the key endogenous factors that determine the depth and speed of institutional change are the starting point of community and society and the conflict-solving capacities of existing institutional arrangements. They argue that rapid institutional change is likely to occur where there is a severe imbalance between community and society. In contrast, a strong, balanced community and society will result in incremental change, with both community and society institutions adapting to changing external circumstances. Thus the framework implicitly suggests that problem solving institutions, resulting from community and society in interaction, determine the nature and pace of institutional change, and through this channel shape economic development trajectories.

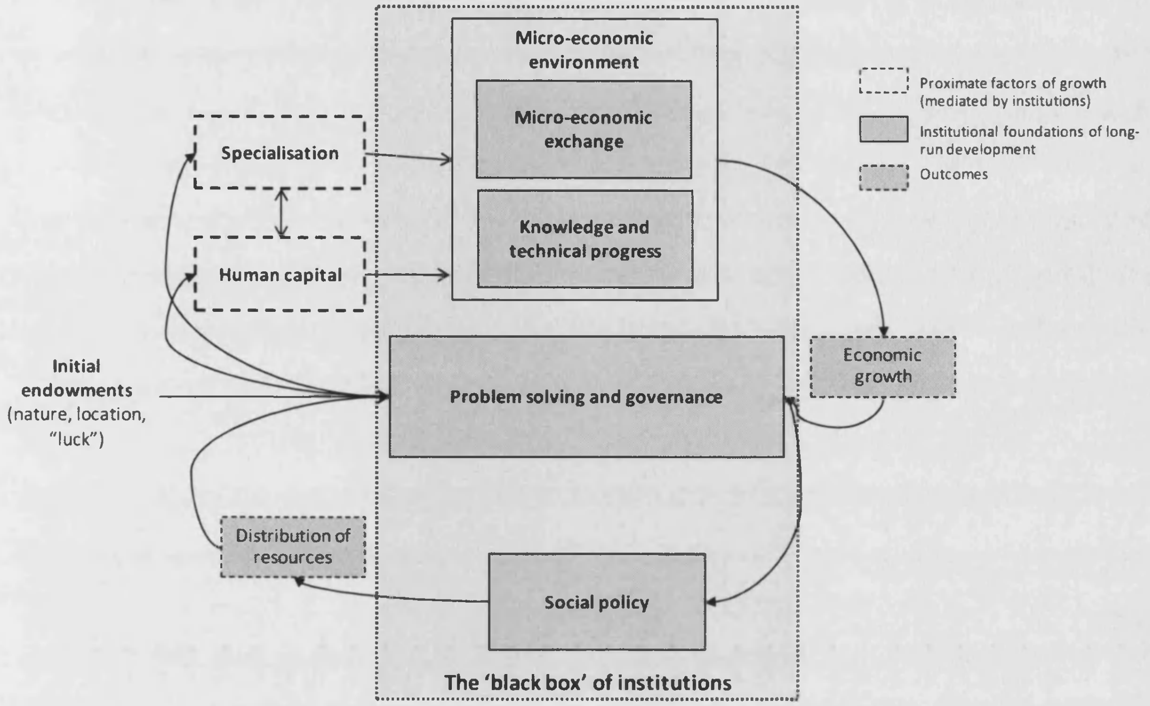
This research makes an important contribution to understanding the institutional foundations of economic development, and offers a promising step in the direction of developing a more holistic growth model accounting for the complexities of meso-level social forces on economic outcomes. There remains, however, substantial scope for further development in several areas. First, the existing framework needs to be put within the context of a more formal model specifying the determinants of community and society force, and their links with economic growth and development. Second, further specification of the mechanics through which community and society shape institutional outcomes will allow for a more dynamic model of economic development. Finally, the model needs to be operationalised and tested empirically, both through in broad quantitative analyses and through micro-level case studies.

3.3. HOW COMMUNITY AND SOCIETY SHAPE ECONOMIC ACTION

Contemporary growth models focus on the accumulation of human capital and their subsequent impact on productivity and innovation. When looking at relative growth in specific territories, the models arising from New Economic Geography emphasise specialisation and often path dependence resulting from initial endowments and 'historical accidents'. But at least in the case of specialisation and human capital, they are most likely to be endogenous – i.e. they interact (in time=1) to partly determine each other's outcome (in time=2). A critical aspect of this endogeneity is that these factors are mediated by institutions (formal and informal), which may be imposed or may themselves be endogenous the territory in question. Figure 3.1 presents a basic framework outlining how institutions shape short and medium term economic outcomes as well as longer-term processes of economic adaptation.

Institutions have both direct and indirect impacts on the economy. Two types of direct effects can be understood through the framework of a basic growth function. First, institutions influence the efficiency of economic exchange, thus affecting returns to capital and labour. They do this because institutions structure processes of search for resources. Moreover, they affect the cost of transactions to secure resources, notably through the degree of *trust* between agents (Fafchamps, 2006). Second, institutions impact the rate of technological progress, because innovation similarly benefits from networks, norms, and trust to pull together often-disparate resources (people, information, technology, finance). Finally, institutions impact the economy's long-term capacity for growth and adaptation by shaping political processes, notably those that have to do with problem solving, and the distribution of the fruits of economic growth.

Figure 3.1[4]



In our framework, we unpack this 'black box' of institutions to focus on two fundamental institutional forms: that of community and society. Community and society both structure the incentives and expectations of individual economic agents. Crucially, both can reduce uncertainty about the likely behaviour of others, and in doing so, facilitate commitments and hence make possible investment and interdependence, the latter of which is the basis for specialisation and coordination. Critically, community and society do these things in different ways. Community mediates largely through interpersonal trust, monitored and enforced within known networks; society enables trust and cooperation through the transparency of rules and confidence in their enforcement. But community and society do not function in isolation. They are always in interaction (Rodríguez-Pose and Storper, 2006).

Therefore, broad and deep socio-economic outcomes emerge from the ways that community and society affect micro-economic behaviours and exchange processes. In order to unpack more methodically how community and society impact macro-level socio-economic outcomes, the remainder of this section will explore how community and society structure the preferences and behaviours of individual economic agents engaging in cooperative exchange.

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[4] This framework is developed in part based on concepts outlined by Storper (2005) and Acemoglu, Johnson, and Robinson (2004)

The actions of these individual agents, magnified through social interaction effects (Glaeser and Scheinkman, 2001), influence aggregate development outcomes, and concurrently such actions shape the ongoing evolution of these same institutions (Bathelt and Gluckler, 2003).

3.3.1 *Microeconomic exchange*

Any economy is built around the twin processes of production and exchange. Product markets, production systems, labour markets, financial markets, and processes of coordination within firms and other organisations all involve exchange of various kinds. It is generally suggested that by taking advantage of the core components of community discussed in Section 2 – interpersonal networks, trust, and norms and sanctions – communities offer substantial coordination advantages in carrying out production and exchange. But how does this work in practice?

The first step in any cooperative exchange is the mutual selection of agents with whom to engage, or the process of search, screening, and selection. The cost and risk involved of finding the most appropriate exchange partner can be significant, particularly when the subject of cooperation is new or complex to any one of the principals, or where at least one of the principals is physically or socially peripheral. For example, finding a dry cleaner that can launder a £20 cotton work shirt may be a relatively simple and risk-free process; finding a specialist who can handle a £5,000 silk wedding dress may be rather more costly and fraught. Other factors that complicate the process of search are the number of market participants (too many or too few can each be problematic), the quality of information available, and the quality of the infrastructure through which information, goods, and principals must travel (Fafchamps, 1999). Interpersonal networks, the physical core of communities, facilitate information flows about possible cooperative agents, lowering the costs of search. In his seminal research in the Moroccan bazaars, Geertz (1978) depicts how personalised exchange relationships reduced search costs for traders. Coleman (1988) similarly describes how generalised reciprocity within the community of traders in an Egyptian market played an important role in reducing search costs and improving market efficiency.

The effectiveness of interpersonal networks in facilitating search will depend on both the nature of the search and of the network, and the degree to which the two are compatible. In this respect it is important to distinguish between 'strong tie' networks where individuals have strong bonds to friends, family, kin, or other group and 'weak tie' networks of social or professional acquaintances (Granovetter, 1973). Strong tie networks tend to be closed and based on tight bonds of solidarity, typically built around mechanical bases of identity (e.g. place, clan, ethnicity, religion, etc.). Weak tie networks by contrast bridge outside mechanical communities and tend to be more instrumental in nature. Whilst both forms facilitate information provision, research suggests that weak ties may be particularly effective in environments of complexity, specialisation, or uncertainty (Grabher and Ibert, 2006; Saxenian, 2002).

But search alone is only the starting point. Once an exchange partner is identified, one must determine whether he or she is credible and capable. In short, can they be trusted? Trust is the mechanism that coordinates interpersonal networks, enabling individuals to cooperate for mutual benefit (Hardin, 2002). The notion of trust and cooperation in facilitating economic exchange has become the cornerstone of much of social capital and related research (Putnam, 1993, 2000; Fukuyama, 1995; Portes, 1998; Uslaner, 2002). Indeed, many authors argue that the economic value of social capital is principally as a means of creating trust (Woolcock, 2001; Dasgupta, 2005).

Where both agents considering a transaction have knowledge of the trustworthiness of the other, the transaction can proceed with both parties being able to estimate accurately the risk to which they are being exposed. This is why long-term relationships are the norm in high search cost environments (Cook, Rice, and Gerbasi, 2002). But what happens when one is dealing with a new agent, or with the same agent but in a new context? Without knowledge of past behaviour, uncertainty arises. And where the risk of loss resulting from one party not complying ('misplaced trust') outweighs the possible benefits of engaging in cooperation, the transaction is likely to be forgone. For an individual, misplaced trust results a large individual loss, whereas forgone trust entails the relatively smaller loss of deferred or unheeded opportunity (Coleman, 1990). But for the wider society, forgone trust is a dead weight loss. This indicates one way in which low levels of interpersonal trust can limit the economic potential of the wider society. In addition, as trust is dependent on experiential feedback – I learn to trust through the positive reinforcement that comes from engaging in successful trust relationships (Cook, Hardin, and Levi, 2005) – the fewer cooperative relationships one engages in, the fewer opportunities one will have to learn to trust others. This learning process can result in virtuous circles of trust, or equally in a "low trust trap" (Rothstein and Uslaner, 2006) which is derived at the level of the individual and reinforced across society.

Trust-based exchange reduces transaction costs and improves the efficiency of social exchange only in so far as it reduces the efforts involved in monitoring and enforcement. In any exchange where the interests of all parties are encapsulated (Hardin, 2002) – i.e. they will benefit equally by compliance and be harmed equally by non-compliance – monitoring and enforcement costs will be relatively lower. However, the temptation to free ride, particularly great as the number of parties increases, will eventually erode the benefits of coordination through calculus or self-interest-based trust (Rothstein, 2000). Communities are critical in this regard as they overcome the free-rider dilemma and because they offer low cost ways of facilitating trust. Where economic agents are members of the same community, they are more likely to share preferences and expectations regarding outcomes of exchange, making free-riding less likely. In communities that interact frequently, individuals are likely to have first-hand knowledge of other community members, enabling them to assess trustworthiness directly. And where no first-hand knowledge exists, community members can engage interpersonal networks to assess the trustworthiness of agents, or indeed assume it through what Guseva and Rona-Tas (2001) describe as the "transitive" nature of trust in networks.

Communities also support the efficiency of cooperative exchange by providing low cost incentives for individuals to comply with obligations. They do this by replacing formal, institutional processes of monitoring and enforcement with norms upheld by sanctions. Norms provide a set of extra-legal guidelines for individual behaviour, thus underpinning trust in an exchange by engaging agents in what is in effect a social contract. This social contract is enforced through community sanctions, which act as a deterrence by punishing behaviour that is deviant to the norms thus making compliance 'in the interest' of individuals (Rousseau et al 1998; Cook, Rice, and Gerbasi, 2002). Community-based sanctions can take on many forms, including restrictions on behaviour (e.g. 'banning orders') or shaming (e.g. Hawthorne's "scarlet letter"), but in an economic context they work most often through reputation. An individual who has proven to be untrustworthy or incapable will be noted as such and this information quickly disseminated through the community via interpersonal networks. This has the potential to minimise economic loss in the community and to improve the efficiency of search.

Reputation and norms have been shown through game theory to offer an efficient and realistic alternative to legal systems as a contract enforcement mechanism (Greif, 1997); and as they rely on effective information mechanisms to monitor compliance and sustain norms, they are only possible within the context of communities. Indeed their effectiveness is context-specific even within communities. Because monitoring behaviour and imposing sanctions is individually costly but benefits are spread across the community, it acts like a public good. Thus the use of norms may be more effective in smaller, tight 'bonding' or highly particularised communities where information is more readily available and the imposition of sanctions can be carried out more cost effectively (Ostrom, 1990; Levi, 1988). In contrast, where communities are larger, less stable, and less spatially concentrated social sanctions may be less effective (Stiglitz, 2002) and norms more difficult to maintain. However, 'weak tie' networks can be just as effective at using reputation-based sanctions to uphold norms (Saxenian, 1994; Cohen and Fields, 2000).

As the scope of exchange becomes wider or its subject more complex, uncertainty arises over the capacities, capabilities, and performance of exchange partners. In this context, society-level institutions play an important role in reducing search costs by providing information about the partners available, and about their capabilities and trustworthiness (Zucker, 1986). For example, many professions require that individuals and firms be certified (via regulatory bodies or through industry accreditation schemes) or obtain specific qualifications. Other societal institutions provide information on credit histories and litigation records.

In more complex trading environments 'principals' may also aim to lower search costs by appointing brokers or 'agents', who provide more efficient search through their own specialised networks. Indeed, North (1990) suggests that the introduction of agents into exchange is a fundamental by-product of increasing the division of labour, and therefore of capitalist economic growth. However, self-interest naturally drives a wedge between the preferences of principals and agents in any exchange thus giving rise to moral hazards, or principal-agent dilemmas. This increases uncertainty in exchange, raising the concomitant risk premium in a transaction and foreclosing exchange altogether in particularly complex situations. Formal institutions can reduce the wedge between private and social returns in any exchange, fostering a more efficient allocation of resources across society (Bennedsen, Malchow-Moller, and Vinten, 2005).

But how do societal institutions do this? They raise individuals' expectations of the trustworthiness of their exchange partners (or perhaps more appropriately, they raise individuals' confidence in the likely behaviour of their exchange partners[5]). Nannestad and Svendsen (2005) outline three main mechanisms through which societal institutions facilitate trust in exchange. First, they provide avenues for redress where one party proves untrustworthy. Second, they weaken the incentives to cheat by reducing the profitability of deception – i.e. by using the probability of enforcement to shift the risk/reward profile of cheating. Finally, they set standards of honest behaviour, which may be internalised as societal norms over time. Thus, the existence of standard 'rules of engagement' backed by a stable and robust rule of law reduces uncertainty by facilitating the mutual trustworthiness of individual economic agents. Similarly at the level of the wider society, formal rules and enforcement mechanisms work to control moral hazard and rent seeking by managing power relations and "levelling the playing field" (Cook, Hardin, and Levi, 2005). Where no group in society is privileged before the law, generalised trust is more likely to take hold.

3.3.2 Knowledge and technological progress

Since Romer (1986) endogenised technology, technological progress has come to the fore of the analysis of long-term economic growth (c.f. Lucas, 1988; De Long and Summers, 1991). Aghion and Howitt (2006) argue that as an economy gets closer to the Schumpeterian technology frontier, innovation becomes the most important immediate determinant of the speed of growth. Community and society level institutions play a relevant role in the creation and adoption of innovation and, thus, in explaining how these institutional domains shape innovation and growth.

Through interpersonal networks and trust-based relations, community institutions increase the participation in and improve the efficiency of cooperative engagements, thus facilitating

[5] Where formal rules and laws structure behaviour it is perhaps not precise to say that that an individual relies on 'trust' to have confidence in the behaviour of an exchange partner (Cook, Hardin, and Levi 2005).

innovation. Schumpeterian entrepreneurs innovate by first identifying relevant information (e.g. technical, market-based, financial), then pulling it together in the form of an 'innovation', and finally applying it for a new economic purpose – i.e. commercialising it (Schumpeter, 1926). Social networks have been shown to play a critical role in promoting information dissemination across all of these activities (c.f. Cooke and Morgan, 2000; Saxenian, 2002; Djankov et al, 2004), from searching for technological partners, employees, and finance to facilitating collaboration and gathering critical information on markets. Trust facilitates the exchange of confidential information by reducing the risk of exploitation of the information by any one party (Dakhli and De Clercq, 2003).

But what kinds of networks are best for these purposes? Some geographers, such as Grabher and Ibert (2006) argue that innovation networks need to be of the weak tie variety in order to take advantage of 'structural holes' – i.e. gaps in networks or organisations which therefore represent opportunities for change (Burt, 1992). Research on innovation networks suggests that such actors on the periphery of communities may be more disposed to carry out radical innovation (Chubin, 1976; Granovetter, 1983). A number of studies by geographers spatialise this notion, stressing the role of extra-local linkages for knowledge creation (c.f. Grabher, 2002; Scott, 2002; Boschma, 2005). However, it may well be the case that both weak and strong ties contribute to innovation. Licht and Siegel (2006) argue that whilst weak ties facilitate information access, strong, trust-based ties are important for research collaboration and financing. This is supported by Morrison and Rabellotti (2005), who show that information networks in Italian industrial districts are dense (many weak ties) and involve only generalised reciprocity, whilst more technically specialised knowledge networks are less dense, but based on strong ties and mutually supportive (communities of interest versus communities of practice).

Whether through weak or strong ties, trust appears to be a critical foundation to facilitation of innovation, including the transmission of tacit knowledge (Gertler, 2003) and the processes of interactive learning and knowledge creation (Lundvall, 1996). Group norms underpin trust relationships, impacting innovation by structuring individual and organisational behaviour. This can facilitate innovation when group norms are innovation-promoting. On the other hand, tightly-bound communities may restrict the freedom of ideas and actions that lead to innovation by sanctioning non-conformity with established norms (Rogers, 1995; Reuf, 2002).

Formal rules of society also impact innovation processes through several channels. First, the incentive structure created through patent, trademark, and other intellectual property laws raises the rate of return on innovation (North, 1990) thus facilitating greater investment in activities for which returns may be long term and uncertain. In addition, by ensuring transparent flows of information, institutions like patent law provide access to critical information upon which innovations can be built, as well as supporting the development of knowledge networks (Jaffe and Trajtenberg, 2002).

Societal institutions also shape innovation through the incentive structures they create for entrepreneurs. Knightian entrepreneurs exploit opportunities where relatively higher levels of uncertainty create profit opportunities (Knight, 1921). Where the societal rules and their enforcement – in particular rule of law and property rights (Licht and Siegel, 2006) – provide an incentive to realise these opportunities through productive endeavours, innovative activities are likely to be undertaken. But where the most sustainable profit opportunities can be found through engaging in rent seeking, then entrepreneurial energies are likely to be diverted to non-productive ends.

3.3.3 Problem solving and governance

At the centre of the framework are problem-solving institutions, which structure the 'terms of engagement' governing economic relations amongst individual actors. North's idea of 'adaptive efficiency' (North, 1990) – the ability of institutions to adjust in the face of political and economic shocks and evolutions – is the outcome of problem solving arrangements. Community and society institutions shape long-term adaptability by determining the nature and patterns of governance, particularly regarding public goods provision (the distribution of the fruits of economic growth) as well as problem solving and conflict resolution.

Community associationalism and civic engagement may encourage greater participation in government and make citizens better consumers of government (Putnam, 1993). By aggregating preferences, communities are able to facilitate the articulation of citizens' demands of the government (Boix and Posner, 1998). It should be noted, however, that this assumes there is sufficient overlap between the preferences of the group in question and the actions of the government. In either case, individuals engaged in active communities are seen to be more likely to expect good service from their government officials (Putnam, 2000). Citizen participation forces greater government to be more transparent (Stiglitz, 2002), which in turn reduces monitoring costs and improves the performance of the bureaucracy (Knack and Keefer, 1997). Neo-Tocquevillean accounts of social capital see greater government efficiency deriving from the informational advantage that groups have over central bureaucracies (Baccaro, 2002).

Community may also impact the quality of government through its affect on public goods provision. Communities overcome certain free rider problems through a greater overlap of preferences amongst individuals and the existence of strong norms that facilitate sacrifice for the 'greater good' and attenuate free riding. Much research has illustrated how local community collective action solves problems of common pool resources and public goods provision, for example the management of fish stocks (Ostrom, 1990) and irrigation schemes (Lam, 1997). Conversely, failure to resolve distributional conflicts amongst competing groups can lead to common pool problems (Easterly and Levine, 1997), reduce public goods provision (Alesina, Baqir, and Easterly, 1997; Easterly and Levine, 1997), and divert resources from investment to redistribution (Easterly, 1997).

Community is not only recognised to impact the levels of economic growth but also its quality, particularly with regard to distributional consequences. By providing voice in political processes, communities play an important role in determining distributional outcomes in a society. Communities may also have a more direct role in facilitating redistribution within the group, through such mechanisms as shared work and financing (Rodríguez-Pose and Storper, 2006), revolving credit schemes (Narayan and Pritchett, 1999) and reciprocal labour relations (Hart, 1986).

Societal institutions also shape economic outcomes indirectly through political channels, in terms of both policy and the performance of the government bureaucracy (Steinmo 2001; Tabellini, 2005). Acemoglu, Johnson, and Robinson (2004) suggest that the conditions for economic growth emerge when political institutions allocate power to groups who maintain certain fundamental institutional pre-conditions (e.g. property rights protection; constraints on power holders; strong rule of law to limit rent-seeking; limits on executive power to reduce rent extraction and appropriation). But how do political institutions do this? The formal rules by which societies facilitate and regulate the participation of individuals and groups in political processes in turn shape the political institutions that emerge and the way in which they function. Formal rules can level the playing field and ensure that participation is open to all. Where groups compete for power, these societal institutions can mitigate conflict by protecting minorities, guaranteeing basic freedoms, and facilitating cooperation for public goods provision (Easterly, 2000). Equally they can be used to block political competition and suppress participation from some groups within society. The organisational positions that result structure the way in which individuals and groups facilitate and interpret information, and so shape the ongoing evolution of preferences and the political strategies employed to satisfy those preferences (Hall and Taylor, 1986; Pierson and Skocpol, 2000; Steinmo, 2001).

'Good' institutions are synonymous with government bureaucracies that are efficient both in their allocation of public goods and the process by which they deliver them. However, not all societal institutions are the same. There is a growing consensus that the meta-institutions of property rights and the rule of law are most important (Rodrik, Subramanian, and Trebbi, 2004; Acemoglu, Johnson, and Robinson, 2004). Moreover, it has been suggested that it is the enforcement characteristics of institutions, not the nature of institutions themselves, determines the quality of governance across societies – i.e. *de facto* and not *de jure* institutions are what really matter (North, 1990; Kaufman, Kraay, and Zoido-Lobaton, 1999; LaPorta et al, 1999).

3.4. INSTITUTIONS AS BARRIERS TO GROWTH

But to say that institutions matter with respect to the economy is not to say that they are inherently positive. In this section we will consider the possible negative consequences of institutions, within a framework that includes both societal and communitarian forces.

3.4.1 The 'blocking effects' of community

Few societies consist of single, homogenous communities; in fact, most consist of a multitude of communities, each more or less competing to realise the preferences of their group.

Competing communities can lead to problems of distributional fairness, and therefore may exacerbate or at least perpetuate inequalities. Some of the fundamental mechanisms which establish and sustain effective communities, including closure, solidarity, and norms and sanctions, can have restraining or even harmful socioeconomic impacts on wider society as well as within communities themselves (Levi, 1996; Portes and Landholt, 2000).

In Coleman's (1998) initial development of the concept of social capital, he notes that the effectiveness of social networks based on trust and reciprocity rely on 'network closure' to uphold the norms of the community. But closure by definition establishes boundaries that determine whether any one individual is inside or outside the community. Indeed, the very fact that communities form around identities (be they religious, ethnic, professional, or interest-based) implies that in-group and out-group distinctions are fundamental to maintaining group solidarity. The concept of 'bonding' and 'bridging' social capital (Putnam, 1993) recognises implicitly the potential downsides of closure. Whilst Putnam saw benefits of both forms of social capital, only the non-exclusionary bridging form was seen to facilitate sustainable societal outcomes. This has been supported by research from a number of other scholars, including Poulson and Svendsen (2005) who show that bonding alone leads to unstable equilibrium growth rates. Thus it may be that the solidarity which defines communities and gives rise to social capital effects (or more specifically to trust) relies to some degree on exclusion to generate and sustain these benefits. And therein lay the seeds from which the negative consequences of community emerge.

First, insider-outsider distinctions are likely to limit the potential for efficient coordination across communities, and thus severely restrict the scope of economic exchange and innovation in the wider society. Research suggests that group members exhibit higher than average levels of trust toward individuals within their group but lower than average toward individuals outside the group, and that this lack or external trust grows over time (Uslaner and Conley, 2003; Stolle, 1998). Others, however, find no evidence that membership per se has this effect (Goette, Huffman, and Meier, 2006; Durlauf, 1999). At worst, lack of trust across communities raises the potential of internecine conflict, which has been shown to have substantial negative economic consequences (Rodrik, 1999; Easterly, 2000).

Closed communities unconstrained by strong societal rules are also notorious for corruption and clientelism. A substantial body of research (c.f. Easterly and Levine, 1997; Alesina, Baqir, and Easterly, 1999; Easterly 2000) has shown that where societies consist of polarised groups, socioeconomic outcomes suffer as communities divert productive resources to engage in rent extraction aimed at ensuring that the fruits of economic growth remain within the group. Corruption takes the form of both the purely economic (extorting bribes from individuals outside the community) and the political-economic (passing contracts on to members of specific ethnic group or using public money to support projects that benefit only one community). *Within* communities, too, democratic governance is by no means a *sine qua non.* Indeed, where communities lack effective inter-group mobility to discipline them, democratic governance is more the exception than the rule. Where mechanical, identity-based communities are strong clientelism tends to also operate at vertical levels, with patron-client relationships forming around families (Banfield, 1958) or elites. Dependence and exploitation is common where social distance, poor integration, and lack of inter-group mobility, locks in such vertical dependencies (Heller, 1996; Dasgupta 2002; Sen, 2002). This is likely to have the effect of reducing societal productivity levels by constraining investments in human capital and innovation.

Whilst trust-based cooperation lowers transactions costs of individual exchanges, when it is based on particularised or narrow bonding it fails to significantly improve overall economic outcomes because it prevents positive externalities from spilling over to the wider society and thus generating economy-wide productivity improvements (Dasgupta, 2005). Restricting economic interactions to a narrow 'radius of trust' (Fukuyama, 2000) hinders the realisation of scale economies, and restricts access to knowledge to support innovation and upgrading. As a result, the benefits obtained by communities can impose social costs by restricting the potential for wider, impersonal exchange (Greif, 1997). For example, Waldinger (1997) finds that ethnic group affiliation in labour markets reduces transactions costs at the micro level of exchange, but that its reliance on closed networks exacerbates problems of information asymmetry, raising transactions costs for the wider society.

The same strong norms and conventions that maintain social structures and underpin solidarity tend to constrain activity to within known bounds. The benefits of social capital are limited by the resources that social networks can provide (Bourdieu, 1985; Putnam, 2000). Where the majority of these networks are of the bonding rather than the bridging variety, access to information on new opportunities and new ways of operating will be limited, restricting innovation and leading to a "downward levelling of norms" (Portes and Landolt 2000, p. 11). Thus, closed networks can lead lock-in and stagnation in local industrial clusters (c.f. Grabher, 1993; Asheim, 1996; Maskell and Malmberg, 1999; Frenken and Wenting, 2008).

In political contexts too, the actions of communities can have negative macro-level consequences. Baccaro (2002) notes that communities result in incomplete representation – the organisation and mobilisation of preferences is uneven across communities as a result of factors like income, class, and power, as well as by the degree of dispersion of interests or preferences. Communities are also self-interested. The result of these two factors is that well-organised communities will pass on the costs of satisfying their preferences to the majority, reducing overall societal utility (Olson, 1971)

Many of the virtuous circle effects of trust-based relationships noted in the social capital literature carry equally negative inertia in an environment of distrust. Evidence suggests that distrust tends to be persistent (Coleman, 1990) and self-reinforcing (Zak and Knack, 2001). Moreover, unlike trust, distrust is more likely to spill over to other contexts – thus: "the danger of relying trust relationships is that they are easier to break than to build" (Cook, Hardin, and Levi 2005, p. 79). The same might be said of community in general.

It is also important to recognise that not all forms of community have an equal impact on economic exchange; nor is community of equal importance in all socio-economic circumstances. In his *Sociology of Community* (1921), Weber notes that closed or bonding communities may form in response to competition for scarce resources, as individuals seek to gain the benefits of exchange whilst reducing competition by establishing grounds for exclusion typically through outward features (e.g. race, language, religion, residence, etc.). In situations where communities are closed or where their boundaries are starkly defined, community norms tend to have a particularly strong influence on individual expectations and incentives. This is most common in ethnic enclaves, where minority groups are not well integrated into wider society. Such communities are often characterised by highly incestuous economic lives consisting of intra-community entrepreneurs and labour markets shaped by both horizontal and vertical information and employment networks. Similarly, in closed spatio-cultural communities, for example rural towns and villages within relatively homogenous, traditional societies, economic activity is strongly determined by community norms and relations. One result is the persistence of networks of small family-based firms in these societies.

In the context of more formal structures, whether they be societal institutions or organisations, informal, network-based communities, may be at odds with what is efficient, or at least desirable, at a macro level. In discussing communities of practice, Grabher and Ibert (2005, p.253) note that the "celebration of communities obviously glosses over the fact that they have 'a life of their own' and indeed might be formed exactly to circumvent formal organisational arrangements and practices". Similarly, much of the informal economy operates through instrumental interpersonal networks designed specifically to avoid playing by societal rules.

Indeed, community might be 'second best'. Community appears to be particularly important in situations of *uncertainty* in the wider socioeconomic environment. In times of conflict or in the absence of rule of law, community operates as a substitute or alternative to society, but as noted by Greif (1997), the question is whether it is a good substitute or an inferior one. For example, Murray (2005) describes how community-level relationships in post-Communist Eastern Europe have tended to strengthen in an environment where trust in social institutions has broken down. Yet geographers have also documented other circumstances where this second-best view does not seem relevant. For example, community mechanisms such as interpersonal networks, reputation, and trust are particularly important in Silicon Valley and other environments on the technology frontier (Powell, 1990; Saxenian, 1994; Storper, 1997; Adler, 2001; Glückler, 2007). Economic life in such locations is characterised by a high level of uncertainty over technology, business processes, and business relationships. As a result, search costs are likely to be high, and legal structures for monitoring and enforcement costly and possibly ineffective (Durlauf and Fafchamps, 2004; Cook, Hardin, and Levi, 2005). A logical response to such uncertainty is to fall back on trust-based networks to limit uncertainty. Whilst the Silicon Valley case may be at the extreme edge of innovation-induced uncertainty, all modern economies are characterised more or less by increasingly rapid technological change and specialisation of labour. As a result, transaction costs as a share of economic output is likely to continue to rise, suggesting that communities, far from being 'second best', may become and ever-more important mechanism for lowering transaction costs and reducing risk.

Finally, a contextual assessment of the role of community must also highlight the fact that both the means and the ends by which community forces are employed may well differ depending on the situation. Community often represents an important asset for 'coping', supporting and sustaining individuals in uncertain external environments. This deployment of community is likely to rely on bonding, strong tie relationships, particularised trust and norms. By contrast, community can also be an asset for 'getting ahead', relying in this formulation on weak ties, interpersonal networks, generalised trust, and reputation. Thus the differences between 'bonding' and 'bridging' community – strong and weak ties, particularised and generalised trust – appears to be critical to unpacking the forms of community and their impact the economy.

3.4.2 *The limits of society*

Like community, society is a double-edged sword and is at best an insufficient solution to solving problems of cooperation and collective action. First, formal rules are high costs ways of achieving cooperation, relying on the ongoing development and maintenance of institutions for monitoring and enforcement. Establishing formal institutions to overcome does not necessarily ensure efficiency; in many cases quite the opposite. If the principal channel for enforcing a contract is through the courts, the cost of exchange will be exceedingly high. Moreover, reliance on formal mechanisms of conflict management, like contracts, may actually block the formation of trust (Molm, Takhashi, and Peterson, 2000). This suggests the possibility of a 'high transactions cost trap', whereby interpersonal relations become bound and reliant upon an ever denser and more rigid web of formal rules and structures.

Second, as the complexity of economic exchange increases (e.g. involving new technologies or processes, or extending across cultural or legal boundaries), the transactions costs of employing societal mechanisms is likely rise just as their effectiveness declines. Legal monitoring and enforcement processes through existing institutions are unlikely to be developed to meet newly-emerging challenges (Cook, Hardin, and Levi, 2005). Examples of this include the protection of intellectual property over the internet or in China. Thus as uncertainty rises (e.g.

at the technological frontier) societal solutions are increasingly less adept and efficient at reducing it.

Thus a reliance on formal aspects of society alone is likely to constrain innovation. Certainly, there is much research to suggest that strong rules, bureaucracies, and rigid accountability structures stifle entrepreneurial and innovation (Boix and Posner, 1998; Harper, 2003). But is the relationship a direct one? One possibility is that the high transactions costs imposed by formal mechanisms raise the barriers to entry for innovators and / or reduces the incentives for payout, eating into the entrepreneur's profit wedge. It is also possible that societies focused on formal institutional solutions tend to be highly statist, resulting in the promotion of national champion firms which prejudice scale over competition, thus reducing the scope for entrepreneurial innovation. Finally, unconstrained political institutions can also act as a block on innovation, as elites attempt to enforce the status quo when there is a risk that innovation may confer advantages to competing groups (Acemoglu, Johnson, and Robinson, 2004).

In the political arena, an over reliance on formal rules and institutions may lead to unchecked bureaucracies, which not only have been shown to reduce the efficiency of government performance but also create within them opportunities for rent seeking and expropriation. Djankov et al (2003) notes the Hobbesian dilemma of state institutions: on the one hand there is a need for a strong government to protect property rights, but on the other the risk that a strong government can itself become a thief or an instrument hindering the expression of preferences. In addition, in the absence of active communities to aggregate and voice preferences, there is likely to be a relatively poor matching between individual choice and the provision of public goods.

'Good' societal institutions may be neither necessary nor sufficient for growth. As Glaeser et al (2004, p.1) note: "poor countries often get out of poverty through good policies, often pursued by dictators... and subsequently improve their political institutions". This may be because, at certain levels of poverty and inequality, the costs to compensate the losers from redistributive reforms is too great, making it more likely that reforms would be pursued in what most of the literature would label a 'bad' institutional environment (Aghion, Alesina, and Trebbi, 2002). The insufficiency of society is exemplified by the substantial disjoint that often exists between *de* *jure* and *de facto* institutions (Acemoglu, Johnson, and Robinson, 2004). For example, Rodrik, Subramanian, and Trebbi (2004) point out that, despite their findings on the importance of property rights, investment levels are higher in China where property rights are absent than in Russia, where formal institutions are in place. Indeed, Rodrik (2008) argues that the most appropriate institutions for persistently underdeveloped territories may well be those that are "second best" – i.e. those that are tailored to context-specific market and government failures that cannot be removed in the short term.

Finally, as with community, societal rules and their enforcement do not emerge spontaneously but are established through political processes. This inevitably means there are winners and losers. And the winners of political processes are therefore the ones in the position to shape the evolution of societal institutions. As the current elite tend to control political institutions, they therefore have the incentive to ensure that these political processes maintain the status quo (Acemoglu, Johnson, and Robinson, 2006a). Thus in the absence of the effective mobilisation of group preferences and of durable political institutions that enforce widespread participation path dependence of economic institutions is likely to be the norm.

3.5. THE IMPACTS ON REGIONAL ADAPTATION AND LONG-RUN DEVELOPMENT PATHS

3.5.1 Summarising the role of community and society in the institutional growth framework

Returning to the framework outlined in 3.1, we argue that community and society are complementary forces that impact macro-level economic outcomes by shaping the preferences and incentives of individual economic agents and groups across each of the institutional domains. They do this ultimately through their influence on two fundamental micro-level behaviours: *participation* and *confidence.* Participation – the degree to which individuals and groups engage productively in economic exchange as well as in the political processes by which societal decisions are made – is at the heart of development (Stiglitz, 2002). It entails making capital available for investment, investing that capital, offering labour to the market, participating in processes of innovation and knowledge creation, and engaging in decision-making processes through voice, entry and exit. Confidence is a critical foundation to enable participation. It is, in effect, the flip side of uncertainty. Because confidence derives from both internal perceptions as well as lived experiences, it is fundamentally shaped by community (e.g. internalised norms, social networks, interpersonal trust) and society (e.g. availability and transparency of information, nature of policies and laws, consistency of enforcement). The development path for any territory is likely to be determined by the degree to which there is participation in all of these aspects of economic and political life from a broad cross-section of society. Achieving this broad participation is a function of creating the conditions that allow individuals to have confidence in the foundations of long-term economic development.

Economic actors must have confidence in the long-term *microeconomic* environment. That is, the risk / return calculus from participation in the economy (be it a speculative financial investment or a simply entering the formal labour market) should be as transparent, fair, and efficient as possible. It should also be as advantageous as possible, in that the expectation of reward is positive and significant. Confidence in the latter will of course be directly affected by macroeconomic conditions, sectoral structures, and other relatively transitory economic and political factors. However, the degree of confidence in the transparency, fairness, and efficiency in which the economy functions will be more durable and derive from the interplay of community and society. Where community is strong, information and transaction costs are likely to be low as a result of shared norms and conventions. This may encourage higher levels of entrepreneurialism and incremental innovation. However, whilst transactions costs within the community may be low, they may be considerably higher between insiders and outsiders, so limiting the scope of economic exchange and learning. Tight bonding may also encourage rent seeking and the entrenchment of in-group / out-group distinctions, limiting the breadth of labour market participation, restricting firms from growing beyond a certain level, and hindering radical innovation. Where there is an imbalance toward society, the result may be higher levels of labour participation and well-functioning markets as a result of transparency and controls on moral hazard. However, this is likely to come at a cost of reduced entrepreneurialism and high transaction costs.

Economic actors must have confidence in the *social policy* foundations – i.e. that the distribution of economic gains which result from the microeconomic environment is fair. This is likely to involve some degree of equality of opportunity if not of outcome. Whilst the size of the pot will vary significantly over time, the mechanisms by which decisions on allocating it are made should be relatively enduring and will derive from the community and society interface. Where the balance is too much on the side of community, the benefits of clarity of group voice (over the babble of individual agents) and the possible efficiencies of intra-group redistribution may be undone by excessive corporatism and an unwillingness to distribute benefits outside the group (Storper, 2005). And whilst societal rules and norms offer a form a discipline against in-group cronyism, society is unlikely to be able to effectively or efficiently adjudge distributional trade-offs on an ongoing basis in the absence of the participation of dynamic groups.

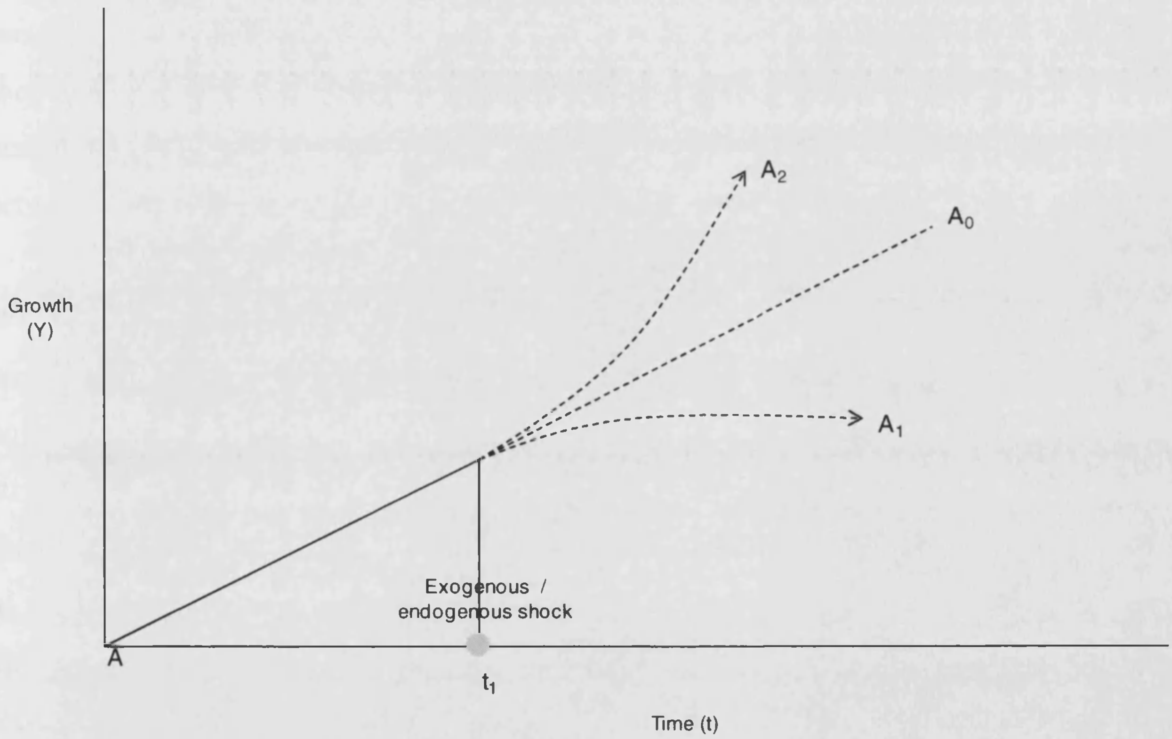
Finally, economic actors must have confidence that *problem-solving* mechanisms are transparent, productive, fair, and stable, and that they will have a voice in shaping the rules. As no institutional arrangements solve all problems for good (Storper, 2005), what is critical here is how problem-solving institutions adapt to reflect ongoing changes in contexts and preferences. Indeed, we argue that the most important outcome of community-society interaction is the way in which they shape the patterns of institutional adaptation. Where community is strong, coalitions will form to facilitate problem solving. However, without societal rules to impose limits on the power of groups and to facilitate inter-group mobility, institutional sclerosis is likely to set in as a result of entrenched interest group positions. Similarly an imbalance toward society, whilst helping to overcome group inertia and principal-agent dilemmas, is likely to be highly inefficient an ineffective in trying to broker resolution across disparate agents. It is likely that diversity of institutions – both communitarian and societal in nature – plays an important role in facilitating adaptation by allowing a greater variety of trials and thus the potential to explore alternative mechanisms for problem resolution (Hayek, 1960).

3.5.2 Explaining regional adaptation and long-run growth

How does this framework help explain the differential patterns of regional growth we observe? Why do some places appear to be capable of reinvention and renewal in response to change whilst others experience stagnation and decline? The key to this is how community and society interact to shape the institutional domains outlined in Figure 3.1 – most importantly problem-solving institutions – and how these determine a territory's capacity for adaptation.

Regional economies, increasingly integrated into national and global trade, capital, and labour markets, cannot be insulated from change. Whether exogenous (e.g., globalisation, technological change, changes in national leadership) or endogenous (e.g., ethnic or political conflict, devolution) cities and regions are constantly being reshaped by an array of economic, social, and political forces. Yet a region is not simply a canvass on which these forces play out – how its individual and institutional actors anticipate and respond to change is critical to its long-run development path[6]. One can imagine a range of potential development trajectories resulting from each force of change acting upon the region, as illustrated in Figure 3.2.

Figure 3.2



In the absence of change we assume the territory is on the growth path AA_0. This growth path is determined by a range of factors, amongst which is its stock of human capital (X) and its sectoral structure or specialisation (Z). We then assume an exogenous shock which occurs at time t_1. In the changed external environment X and Z may or may no longer be appropriate to maintain the desired growth path. For example, a specialisation and human capital stock geared toward labour intensive manufacturing may no longer be appropriate if

[6] We recognise that the city or the region, as a territorial expression, is not an actor per se. However, for ease of expression we refer to "city", "region", or "territory", which we mean to encompass the wider set of actors (governmental entities, firms, civil society, individuals, etc.) that interact within a defined territorial area.

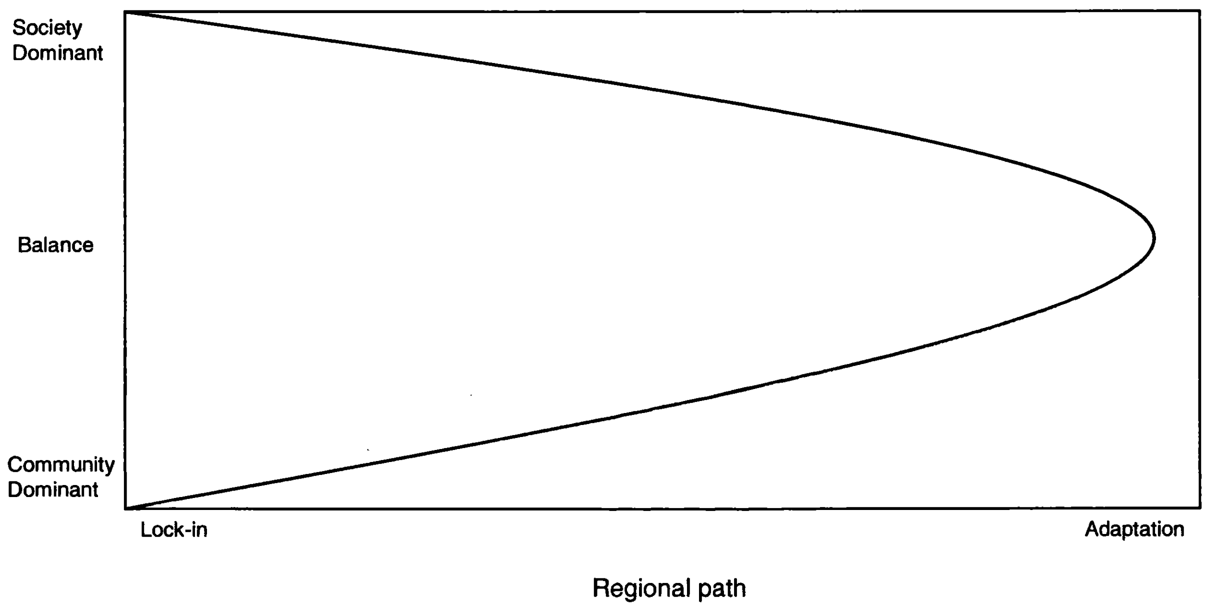
changes to trade regimes introduce competition from regions with much lower labour costs. Alternatively, a stock of human capital with a specific of skills (e.g. English language, numeracy) may become highly valuable when technology enables the trade of services across borders. Where X and Z are ill suited to the changed external environment, a development path like AA_1 would most likely result; where they are particularly suited, a path like AA_2 would be most likely.

When comparing regions with relatively similar endowments and initial positions of X and Z, however, the differences in outcome are unlikely to be so starkly defined. Rather, the differences will more likely be observed in terms of where their growth trajectory trends between AA_1 and AA_0 (or AA_2 and AA_0). More importantly, a territory's growth path is not simply defined by static measures of human capital and specialisation, but the way in which these and other variables adjust in the face of a changing external environment – i.e. institutional adaptation – which is ultimately a function of the interaction of a variety of actors across the territory.

We hypothesise that the process of regional adaptation is a function of the incentives a territory's institutions provide to individual, groups, and firms to respond to the changing environment. This process of institutional change is only partly endogenous to sectoral structure and the stock of human capital. It is also a function of social structure (heterogeneity and polarisation of ethnicity, language, and/or class) and of the interaction of the forces of community and society (which are themselves partly endogenous to X and Z). How community and society are structured and how they interact will shape the incentives offered by institutions. We propose that two territories with the same initial stock of human capital and the same specialisation will follow different paths of adaptation or lock-in depending on their social structure, and the interaction of their forces of community and society, as illustrated in Figure 3.3.

Where there is an imbalance toward community, the regional growth path will tend toward lock-in for a number of reasons. A lack of bridging outside groups restricts access to new knowledge, dampening innovation and having a sclerotic effect on human capital, firms, and institutions. The lack of bridging also restricts potential for scale, so efficient adaptations by some groups are unlikely to have sufficient impact across the territory. The absence or weakness of strong, enforced societal rules to counterbalance community favours the most powerful groups (i.e. the existing elite who usually favour status quo) and can result in distributional conflicts, thus holding up progress toward efficient adaptations. The result is avoidance or delay in implementing adjustment policies, declining confidence levels (with subsequent impacts on participation and investment), and a diversion of resources from productive to redistributive activities.

Figure 3.3



Where there is an imbalance toward society, lock-in may also likely to result due to sclerotic institutions and a high transaction cost environment. Where community is weak (i.e. where there is an insufficient level of networks and trust-based relations) innovation and risk taking will be restricted[7]. Lack of collective voice will tend to favour existing dominant groups in conflicts over the distribution of resources, resulting in most circumstances in institutional status quo[8]. Similarly where society is strong and privileges certain groups, generalised trust is undermined, leading to lower levels of participation and investment. And to the degree that the playing field for political participation (voice) is perceived to be

[7] Selection into new sectors and economic activities comes with a certain amount of uncertainty; in such an environment, networks and trust (non-societal alternatives to contracts) is likely to be critical to mitigating risk. In addition, selection into new sectors will be facilitated by knowledge spillovers, which can be facilitated through networks.

[8] Except where adjustment favours the existing elite, then rapid (but potentially unstable) adjustment is possible. See further discussion of this in the text explaining Figure 3.4.

uneven, further polarisation of groups will increase the potential volatility of the regional growth path.

Finally, where community and society are strong and in balance, an efficient process of regional evolution may be possible, allowing for long-term adaptation. Strong community lowers transaction costs and provides incentives for innovative and entrepreneurial activity, which are critical to the process of adjustment. It also enables groups to have voice in the distributional conflicts that will inevitably arise during periods of structural adjustment. At the same time, strong societal rules provide a counterbalance to ensure that more powerful groups do not abuse their position, supporting confidence and participation in microeconomic exchange, and coalition and compromise in political processes. This is likely to result in steady, if not necessarily spectacular, economic growth both in terms of quantity (GDP, jobs) and quality (income levels, inequality).

By shaping the modes of adaptation, community and society not only determine the general trajectory of growth but also shape the specific path. Figure 3.4 shows how different modes of adaptation can lead to very different development paths in a city or a region.

Figure 3.4

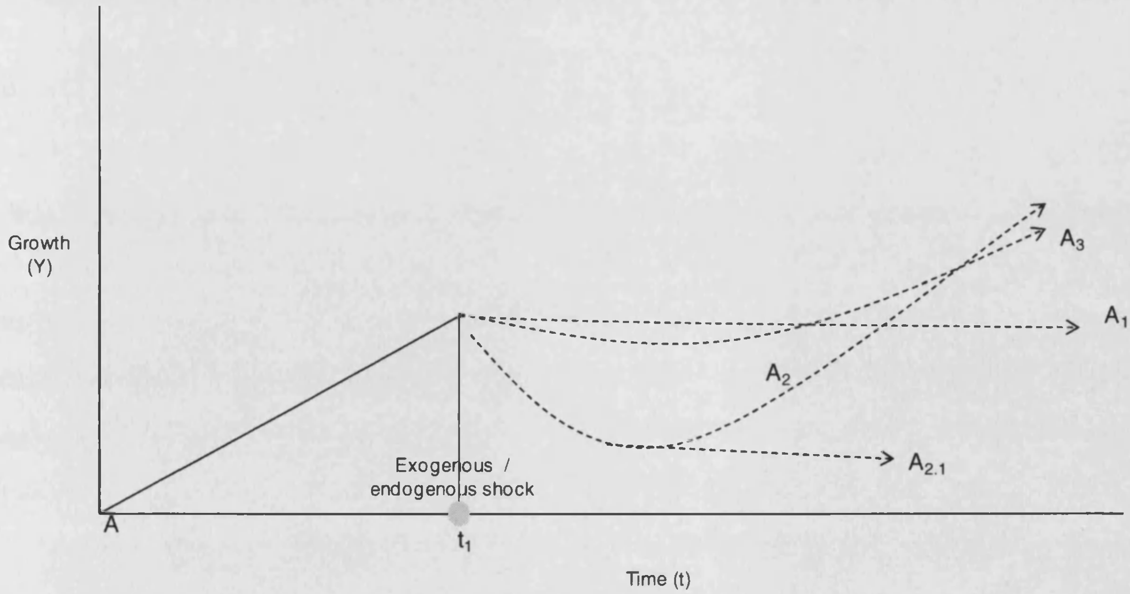


Figure 3.4 outlines three possible modes of regional adaptation in response to an exogenous change which results in a shock to the region's competitiveness. Path AA_1 illustrates a mode which we will call *stasis*. This is essentially a mode whereby the regional economy avoids

adaptation, choosing instead to attempt to protect its traditional bases of competitiveness and its existing sectoral structure. We maintain that this is likely to stem in part from an imbalance in community and society. Specifically it may result from a situation of strong community and weak society, whereby ongoing, institutionalised interest group resistance and the inability to achieve societal consensus on the need for change results in maintenance of the status quo. It may also result from a situation of strong society and weak or fractured community, where sclerotic societal institutions are insulated from the changing external environment, and no sufficient scale of community collective action to promote change is possible. The result is likely to be a stagnating or slowly declining growth path.

Path AA_{2} and $AA_{2.1}$ represents an adaptation process we will call *selection*. It involves shifting the basis of competition in the regional economy, and subsequently its sectoral structure, in order to adapt the new conditions created by the changing external environment. Selection describes a process of short-term adjustment, whereby firms and institutions in the territory adopt a basis of competition that is efficient for the present situation, but one which may or may not be necessarily efficient over the long run (Essletzbichler, 2007). We suggest that this mode of adaptation is also possible where community and society is imbalanced. Specifically, where community is strong under conditions of a dominant majority group, it may be able to force through rapid change, particularly if such change is likely to offer rents to the in-group. Where society is strong but market-coordinated and community is weak (i.e. the environment of a typical neoclassical economic model of individuals and markets), rapid adjustment would be expected. The result may be greater structural adjustment and possibly greater decline in growth during a relatively short period, followed by a more rapid recovery than would be expected under alternative modes of adaptation. However, whilst this might result in a higher long-run position on the growth curve, it may also have significant implications on equity and social stability, which in turn could increase the risk of the region shifting to a lower growth path like $AA_{2.1}$ in the longer term.

Finally path AA_3 illustrates a mode which we will call *adaptation*. This involves a slow, evolutionary shift in economic structure and bases of competitiveness. In this mode of adaptation, the region does not simply experience a shift in its sectoral specialisation but instead maintains diversity, adopting new areas of specialisation whilst retaining (and probably slowly shifting out of) old ones. We maintain that an adaptively efficient regional economy is more likely community and society are strong and in balance. As is apparent in Figure 3.4, this mode of adaptation does not necessarily avoid decline, but it is likely to attenuate it; similarly it is unlikely that a region operating under this mode of adaptation would experience dramatic upswings in growth at any point in time.

3.6. CONCLUDING COMMENTS

This chapter has taken the community-society framework presented in Rodríguez-Pose and Storper (2006) as a point of departure. We then described in detail how the institutional forms of community and society shape economic and socio-political processes at micro and meso levels of exchange. From this we extended the framework to develop our hypothesis on how these forces would play out at the macro-economic level in terms of growth, development, and adaptation. In this, we have tried to focus the discussion primarily on regional economies. It is our contention, following Rodríguez-Pose and Storper (2006) that where community and society are individually strong and mutually in balance, regional economies are better able to adapt to exogenous change over the medium and long term. In Chapters 5 and 6 we test this hypothesis in specific city-region case studies. Before that, however, in Chapter 4, we conduct a broad quantitative investigation to determine whether in fact there is any empirical evidence to support the link between community and society institutions and growth, and whether we can identify specific institutional domains through which these effects may be traced.

Chapter 4: Quantitative investigation – the impact of community and society on economic institutions

4.1. INTRODUCTION

This chapter takes a first step in considering the evidence as to whether and how the forces of community and society shape the institutions that underpin long-run growth. In order to do this, we first develop a set of proxy variables that operationalise societal and communitarian forces. We then explore their influence on a number of dependent variables that represent economic outcomes and the institutional domains related to long run economic performance, specifically: those involved in problem solving; those that shape the microeconomic environment; and those that influence social policy. The analysis is based on pooled regressions across 64 countries, using two panels of data, from 1990 and 2000.

This is admittedly an exploratory exercise, and the data constraints are significant. The intention in this chapter is not to develop and test a precise model but simply to examine the basic premise regarding the relationship and interaction of community and society on development-promoting institutions, and to see what relationships there may be. The results are encouraging: we find that both community and society are important determinants across all institutional domains, but that different aspects of each are most relevant to specific institutional domains. Bridging forms of community and societal rules are, by and large, associated with positive institutional outcomes whilst bonding community is associated with negative outcomes across most, but not all, domains. We also find evidence that the interaction of community and society is critical; that societal rules in some cases complement community and in others offset their negative consequences. Finally, we find that community in most cases becomes a more powerful factor when society is weak.

By lending support to the hypothesis we introduced in Chapter 3, the results presented here justify exploring these relationships in a richer context; this is presented in the regional-level case study research presented in Chapters 5 and 6.

4.2 EMPIRICAL STRATEGY AND DATA

4.2.1. *Objectives*

The objective of the quantitative analysis is to show that both community and society have significant associations with institutional outcomes that are the proximate causes of growth, and subsequently with the quantity and quality of long-run growth. In addition, the analysis attempts to explain some of the dynamics of this relationship, in particular by indicating the nature of the interaction between these forces and specific institutional outcomes.

4.2.2. *Specification of empirical analysis*

In order to explore the relationships hypothesised above, the following regression equation is used:

$$Y_{it} = \alpha + \beta_1 CX_{it} + \beta_2 CO_{it} + \beta_3 SR_{it} + \beta_4 CXSR_{it} + \beta_5 COSR_{it} + \beta_6 X_{it} + \varepsilon \qquad (1)$$

Where:

Y denotes a series of dependent variables that represent the problem-solving capacities, the micro-economic institutions, the social policy characteristics, and the economic outcomes of the countries being analysed;

CX represents bonding forms of community;

CO represents bridging forms of community;

SR represents societal rules;

CXSR represents the interaction of bonding community and societal rules;

COSR represents the interaction of bridging community and societal rules;

X represents a series of control variables, which include the technological frontier of a country, ethno-linguistic fractionalisation of a country, and a dummy for ex-Communist regimes;

α and β are the coefficients;

ε is the error term;

and i and t denote the country and the time period, respectively.

Each of the elements included in the model is now described in greater detail. Full details on the data used for each variable is included in the Appendix 1.

4.2.3. Dependent variables

The dependent variables are organised around the three institutional domains referred to above: problem solving, the microeconomic environment, and social policy. In addition we assess as a series of variables reflecting final economic outcomes.

Problem solving institutions are at the heart of the framework presented in Chapter 3. They structure the 'terms of engagement' governing economic relations amongst individual and group actors. The first set of problem-solving variables focus on trust and confidence. Trust matters from an economic standpoint because it is critical to cooperation. Where trust is present, transaction costs should be reduced by lessening the need for negotiation, monitoring, and enforcement. Trust is also expected to be fundamental to problem solving, as it supports the willingness of groups to make short-term sacrifices, thus enabling society to take decisions on the distribution of resources (Fukayama, 1996). Trust is directly linked with confidence, and together they determine the level and quality of participation in both economic and socio-political domains.

Generalised *trust* is reflected by the standard World Values Survey (WVS) variable, which is employed in most of the social capital and trust literature. The data are based on answers to the question "Generally speaking, would you say that most people can be trusted, or that you cannot be too careful?"; from this we measure the share that responds "most people can be trusted". Despite criticisms of its appropriateness (c.f Glaeser et al., 2004), trust scores from WVS are very stable over time (Uslaner, 2002; Bjornskov, 2005) and strongly coordinated with trust measures derived from wallet-drop experiments (Uslaner, 2002). Data on *confidence* refer to citizens' confidence in the institutions of government, and is also taken from WVS.

Problem-solving should also be reflected in *conflict resolution*; we look at three dependent variables reflecting different domains of conflict resolution. The variable *legal conflict* is designed to measure the degree to which interpersonal conflicts are resolved through the courts versus informal resolution mechanisms. As no cross-country data on actual caseloads is available, we employ a proxy that has been used in previous research (Magee, 1992): the number of law graduates as a share of total university graduates. Data are taken from an unpublished dataset provided by the UNESCO Institute of Statistics. The dataset runs from 1998 through 2004; we have taken the average of the available data from this period and applied it to both panels. Our data on *socio-political conflict* are taken from the *State Failure Taskforce* dataset (Goldstone et al, 2000), which tracks "events" of internal and external conflict. We have used their variable *"sftpuhvl"* which is defined as the "sum of the maximum magnitude of events over previous 15 years". The dataset ends in 1998, and so we have taken 1998 data for our 2000 panel. Finally, *political stability* is sourced from the indicator in the World Bank's *Governance Matters* dataset.

The long-term *microeconomic environment* refers to the determinants of the level and nature of participation in the functional institutions of the economy (e.g. labour markets, capital markets, innovation networks). Fundamental to these is the level of confidence that actors have in the 'rules of the game' and hence their ability to estimate payoffs for particular forms of participation. In the long run, perceptions of the transparency, fairness, and efficiency of the economy tend to have durable effects. We proxy the microeconomic environment via the critical behaviours it should affect: *participation, entrepreneurship,* and *innovation*. *Labour force participation* comes from the International Labour Organisation's *Key Indicators of the Labour Market (KILM) database*. We measure the unofficial or *informal economy* as a share of GDP in order to measure the degree to which individuals actively avoid or are unable to participate in mainstream economic domains (labour markets, capital markets) and to measure the willingness of individuals to pay taxes in support of societal institutions. Our measure of the informal economy comes from Schneider and Klingmair (2004). *Entrepreneurship* is taken from the Opportunity Entrepreneurship Index of the *Global Entrepreneurship Monitor* (2003). The index combines survey responses and economic data to estimate overall entrepreneurial activity in each country, and then subtracts from this entrepreneurs who are forced into establishing their own business due to socio-economic conditions, in order to isolate an index of entrepreneurship that more closely fits traditional Schumpeterian or Kirznerian definitions. Note that entrepreneurship data are available from only 67 of the 128 observations in the sample. We measure the *SME share* of industry as an alternative measure of firm-level dynamism. Data is taken from a World Bank cross-country data base on SMEs (Ayyagari, Demirguc-Kunt, and Beck, 2003). Finally, *innovation* is proxied by a measure of patents awarded, based on data from the World Intellectual Property Organisation. We then construct a variable for the average annual number of patents awarded (during the period 2001-2004) per US$1m in GDP, in order to control for the strong correlation between patent awards and GDP.

Social policy focuses on the institutions which shape the distribution of economic gains, the result of which has a strong impact on individual actors' perceptions of fairness, stability, opportunities, and risk-reward tradeoffs. We indicate social policy outcomes through measures of public goods provision, redistribution, and investments in tertiary education. Government expenditure on health and education as a share of GDP proxies for *public goods provision*, with data taken from the World Bank's *World Development Indicators* (WDI) dataset. *Redistribution* measures social security expenditures as a share of GDP, and comes from the ILO's *World Labor Report*. Enrolments in *tertiary education* indicate the degree to which social policy encourages investment in education. Data is taken from the UNESCO Institute for Statistics.

Finally, we assess *economic outcomes* through measures of growth, terms of trade, and volatility of growth. Economic outcomes are measured over the period 1990 through 2004 in order to provide a sufficient lag to the observations of our independent variables, and to ensure a broad enough period is covered to avoid shocks that may have impacted a subset of the overall sample. *Growth* is measured as the overall percentage increase in GDP per capita between 1990 and 2004 based on data from the WDI dataset. *Terms of trade* is defined as the real effective exchange rate growth over the period 1990 to 2004 and is based on data from the Economist Intelligence Unit. Finally, we measure *volatility of growth* by the standard deviation of average annual per capita income growth between 1990 and 2004 and is derived from the WDI dataset.

4.2.4. Independent variables: community and society

Community

We operationalise community by what it is – networks of relations – rather than by what it does – produce social capital – as per Woolcock (2001) and Sobel (2002), in order to avoid circularity. Community can manifest itself in many different ways – we are particularly interested to explore the potential differences between 'bonding' and 'bridging' community (c.f. Putnam, 2000). These different forms of community, which were discussed in detail in Chapters 2 and 3, map closely to the concepts, respectively, of 'strong tie' and 'weak tie' networks (Granovetter, 1973). Bonding networks tend to form around mechanical bases of identity (family, ethnicity, religion), whilst bridging networks involve interactions amongst actors that lack a deep, structural bond but who share a common cause. As such they tend to be more instrumentalist in nature.

Empirical studies of community and social capital have tended to focus on measures of membership in formal organisations or voluntary activities as these represent the most easily identifiable evidence of associationalism available. However, most researchers recognise that not all of what drives collective action and shapes community bonds is derived from formal association. Much of the literature on industrial districts, 'knowledge spillovers', and innovation in regional economies (c.f. Saxenian, 1994; Cooke and Morgan, 2000; Gertler, 2003) emphasises group norms and the flow of tacit knowledge through informal networks. Informal relationships have a substantial impact on the functioning of institutions, as domains not only for knowledge sharing, but also for structuring incentives, reproducing norms, and imposing sanctions. Even more so than with formal institutions, it may not be simply the existence but rather the nature or type of informal relationship that matters most. In this regard, relationships with family and friends may need to be distinguished from relationships with professional colleagues and acquaintances, which are likely to be more instrumental in nature. Data on informal aspects of group life are notoriously scant. Individual studies have managed to capture this data in local and sometimes national levels through detailed survey instruments and network mapping, but such data are only available across a handful of countries, and even then the data generally lack consistent definitions.

The data we use to construct our *bonding* and *bridging* variables are taken from the World Values Survey, a study on norms and values across many countries in the world. To date, the survey has comprised four waves beginning in 1981 (1981-84, 1989-93, 1994-1999, and 1999-2004). Although a number of problems with the data are well known – including limited country coverage, question and data inconsistency, and differential response bias (c.f.

Danielson and Holm, 2002) – the survey is recognised as the best and probably only reasonable source for making comparisons of values and perceptions across countries and over time. It has become is the primary source of data for virtually all quantitative studies on social capital and trust (c.f. Knack and Keefer, 1997; Beugelsdijk and van Schaik, 2005; Bjornskov, 2006) and for the links between culture and economic and political outcomes (Inglehart and Norris, 2003; Tabellini, 2005). Data are taken from the second wave (1989-1993) for the 1990 panel and from the fourth wave (1999-2004) for the 2000 panel. In some cases, data from the second wave are unavailable or of poor quality; in these situations the earliest available data are used, in most cases from the third wave (1994-1999).

Previous empirical studies distinguish different types of formal associational activity: 'Putnam' groups (Putnam, 1993), which generally include civic, charity, and social groups; 'Olson' groups (Olson, 1973), which cover groups which may have an open or vested economic or political interest; and 'religious' groups. We follow Beugelsdijk and van Schaik (2005) in defining Olson groups as including: trade unions, political parties or groups, and professional associations. In defining Putnam groups, we diverge somewhat from Beugelsdijk and van Schaik and instead follow Knack (2003) by excluding membership in religious organisations. Religious networks may exhibit substantially different group behaviour from the types of civic organisations envisaged by Putnam; indeed, their communities are more likely to form around 'mechanical' bases of identity. Therefore, we exclude membership in religious organisations from our Putnam groups and consider them separately as a component of bonding community.

However, whilst Putnam and Olson groups are different (Olson groups tend to be more instrumental in nature) we argue that both Putnam and Olson forms of community are of the bridging variety and, therefore, the direction of their impact on institutional outcomes may be broadly similar. Indeed, we argue there is a more fundamental difference – between bonding and bridging, strong and weak ties – that needs to be tested. Therefore, we construct two main variables to represent community: one for *bridging* and one for *bonding*. Our bridging variable is constructed via principle components analysis, taking our measure for formal membership in *Putnam* groups and our measure for membership in *Olson* groups. Results from the PCA are shown in Table 4.1. As we do not have sufficient quality cross-country data on informal aspects of bridging, the bridging variable is restricted to formal forms of associationalism. Our bonding variable is also constructed through a principal components analysis on two variables (see results in Table 4.1). The first is formal membership in *religious* organisations, based on data from WVS. The second, also taken from WVS, measures informal *bonding*-type associations by taking responses to the WVS question on the frequency with which respondents spent their leisure time with friends and family. Respondents were given four options: "weekly", "once or twice per month", "a few times a year", or "never". The percentage responses for each sample across the four categories were then converted to average annual frequency for each unit. Clearly this data is far from optimal – we would prefer to have better quality and more targeted data on informal association, particularly identifying the nature of and strength of associations and the structure of informal networks. Some recent social capital research has managed to assess such data on an individual country level by making use of social survey data (c.f. Sabatini, 2006); however, data availability is woefully inadequate to support large-scale cross-country analysis.

Table 4.1

PCA Extraction: Bridging (Putnam membership, Olson membership)						
Component	**Initial Eigen Values**			**Extraction sums of squared loadings**		
	Total	% Variance	Cumulative %	Total	% Variance	Cumulative %
1	1.491	74.526	74.526	1.491	74.526	74.526
2	0.509	25.474	100.000			
PCA Extraction: Bonding (religious membership, informal bonding)						
Component	**Initial Eigen Values**			**Extraction sums of squared loadings**		
	Total	% Variance	Cumulative %	Total	% Variance	Cumulative %
1	1.305	65.274	65.274	1.305	65.274	65.274
2	0.695	34.726	100.000			

<u>*Society*</u>

We use the term 'society' to refer to what North (1990) defines as "constitutional rules", the..."'superstructure' which determines the general character of the political order... and regulates the process of making ordinary law" (Harper, 2003). As such we follow Glaeser, et al (2004) in stressing the importance on selecting societal institutions which are not overly transitory in nature, to avoid the tautological error of specifying policy outcomes as independent variables. We make use of five variables to proxy three dimensions of society: the *environment in which economic rules are made and enforced, institutionalised constraints on power, and the degree to which political voice and participation is institutionalised.*

The first component of society measures the overall environment in which rules are made and enforced. This combines the meta-institutions of property rights and the rule of law. These measures have been used extensively in the institutions and growth literature; indeed they are identified by much of the literature as being the fundamental institutional pre-conditions for economic growth (c.f. Rodrik, Subramanian, and Trebbi, 2004; Acemoglu and Johnson, 2006). We take one variable measuring *property rights* from the IRIS 3 / ICRG dataset and two measures of the *rule of law*, one from IRIS 3 / ICRG and another from the World Bank's *Governance Matters* dataset.

The second component looks at the degree to which governments have structural limits (or checks and balances) on the free hand of those in power. The Polity IV *Executive Constraints* indicator measures limits on political power – this is a proxy for the existence of a broader system of checks and balances. It has been used widely in empirical studies linking governance and growth, and is theoretically closely aligned to the institutionalist literature on economic growth (c.f. North, 1990). Limits on the concentration and exercise of power by political and economic elites are expected to have a direct impact on problem solving institutions, and should be critical to enable widespread participation in economic life.

Our final component of society looks at support for voice. This measured as the degree to which the political process is institutionally structured to facilitate broad participation, particularly of minority parties or groups. Data come from the Polity IV *Political Competition* indicator, which measures the degree to which participation in the political process is institutionalised, and competition maintained to ensure a relatively level playing field for all groups.

These components of society are all highly correlated. Each bivariate correlation is significant to the 1% level; Pearson correlation coefficients range from a low of 0.48 (between *executive constraints* and *rule of law*) and 0.86 (between *rule of law* [from the KK dataset] and *property* *rights*). As such, we construct a single variable for society (*rules*) using a principle components analysis of these five variables. The results from the PCA are shown in Table 4.2.

Table 4.2

PCA Extraction: Society (*property rights, rule of law, rule of law [kk], executive constrains, political competition*)						
Component	**Initial Eigen Values**			**Extraction sums of squared loadings**		
	Total	% Variance	Cumulative %	Total	% Variance	Cumulative %
1	3.802	76.034	76.034	3.802	76.034	76.034
2	.728	14.552	90.587			
3	.180	3.600	94.187			
4	.167	3.333	97.520			
5	.124	2.480	100.000			

4.2.5. <u>Control variables</u>

The regressions control for several factors which are expected to have a significant impact on both institutions and final economic outcomes. We include three control variables. The first of these is the position of the country relative to the *technology frontier*, as defined by Hall and Jones (1999). As per Aghion and Howitt (2006), we expect a country's position relative to the technology frontier to be important for determining what types of functional institutions are appropriate. We include a dummy variable denoting ex-Communist countries, as more than one-third of the samples in our dataset are former Communist countries in Europe and Central Asia. Finally, we control for the degree of ethnic and linguistic heterogeneity, as measured by an index of *ethnolinguistic fractionalisation*. We use the dataset of Roeder (2001), which calculates fractionalisation as of 1985, based on the formula developed by Taylor and Hudson, which has been used extensively in empirical studies (c.f. Mauro, 1995; Easterly and Levine, 1997; Alesina et al, 2003). Ethnolinguistic fractionalisation is hypothesised to represent an important structuring factor which is likely to impact the intensity and nature of community networks (bonding in particular, but also potentially bridging) and the functioning of societal institutions.

Note that per capita GDP was originally included as a control, but was subsequently dropped as it was found to cause multicollinearity. In particular, there is a strongly self-reinforcing relationship between GDP per capita and the societal rules environment. In most cases GDP appears to proxy for the quality of the rules environment, rather than the other way round as is often suggested in criticisms of the institutions literature (Aghion, Alesina, and Trebbi 2004; Glaeser et al, 2004). A matrix of correlations across all independent variables is presented in Appendix 2.

4.2.6. Empirical strategy

Following common practice of research in this area (and partly as a consequence of limited data availability), the framework is tested with ordinary least squares (OLS) regressions to compare pooled sets of data. We have selected a cross-country approach for the analysis over more micro-level approaches (e.g. regional analysis within a single country, or analysis of a specific micro-economic institution) in order to ensure that the results would be as generaliseable as possible. Regional-level regression was also considered as an alternative approach. The region is in some ways a preferable spatial scale of analysis, as the hypothesis of this research would predict that community forces would impact most strongly at the regional level. However, data collection at the regional level is problematic for two main reasons. First, the sampling methodology used in the main source of data for community variables is inappropriate for use at the regional level. Whilst it may be possible to develop this dataset for the EU and US using alternative sources, at this stage an international comparison at the country level that provides a wide diversity of both community and society models offers a more useful approach. Second, in terms of society variables, it is difficult to obtain differentiable data between different regions in the same nation-state. As datasets improve, sub-national analysis will be more feasible.

Our dataset consists of 64 countries, with data for each country captured in two time periods (therefore a maximum of 128 observations). Country coverage is limited mainly by data availability for the community independent variables. The dataset is weighted toward developed countries and toward Europe, although it does include a number of middle and lower middle income countries across all continents. For a list of the countries covered in the analysis, see Appendix 2.

The dataset includes two periods of observations, which are pooled in the regressions: a "1990 panel" and a "2000 panel". Wherever possible, the data for both the independent and dependent variables in each panel are taken from its eponymous year (i.e. data on variables for the 1990 panel are taken from 1990). We recognise that the timeframe for the observations is problematic, as there is likely to be some (arguably significant) time lag before the effect of the independent variables is felt on the dependent variables. However, we are severely restricted by the lack of historical data on some factors, particularly the community independent variables.

Each of our dependent variables is tested in three stages, as shown in Table 4.3. In the first stage, our variables for community (*bonding* and *bridging*) and society (*rules*) are regressed together against the dependent variables and the control variables. Recall that one of the main hypotheses of this research is that community and society interact to shape institutional outcomes. Although in the stage one and stage two regressions community and society are run together in the same model, this does not test their interaction per se. Therefore, in the second and third stages we introduce the dynamic interaction of community and society. Specifically, we test how the community variables of bonding and bridging impact outcomes in two different societal environments: a strong societal or "high rules" environment (stage 2 regression) and a weak societal or "low rules" environment (stage 3 regression). This should provide significantly more insight into the relationship between community (of the bonding and bridging variety) and society.

Table 4.3: Summary of model specification

Model 1	Model 2	Model 3
Bonding community Bridging community Societal rules	Bonding community_high rules Bridging community_high rules	Bonding community_low rules Bridging community_low rules
Technology frontier Fractionalization Ex-Communist dummy	Technology frontier Fractionalization Ex-Communist dummy	Technology frontier Fractionalization Ex-Communist dummy

To do this we construct dummy variables representing "high" and "low" rules environments. In the stage 2 regressions, factor of "1" is assigned at the highest 40% of observations[9] of the variable *rules* to create a new variable, *highrules* (all those below it are subsequently assigned a factor of "0"). We then run regressions interacting the variables *bond* and *bridge* on *highrules* to create two new variables (*bonding_highrules*; *bridging_highrules*) which are then regressed

[9] For the purposes of this analysis we eliminate observations in the middle 20% (10% on either side of the median observation) in order to ensure that we capture substantive differences in the rules environment.

against the control variables. Similarly, the stage 3 regressions assign a factor of "1" to the highest 40% of observations of rules to create a new variable, *lowrules*. We then run regressions interacting the variables *bonding* and *bridging* on *lowrules* to create two new variables (*bonding_lowrules*; *bridging_lowrules*) which are regressed against the control variables.

We tested for multicollinearity by checking the bivariate correlations (see the correlation matrix in Appendix 3) and by running VIF tests. VIF results were in the range of 1.3-2.9 for stage 1 regressions, 1.2-2.8 for stage 2 regressions, and 1.2 to 2.2 for stage 3 regressions, indicating multicollinearity is not of significant concern.

As was noted, the purpose of this research is to explore the plausibility of our general point, that society and community in interaction have an impact on the functioning of the institutions that determine medium and long run economic development. The question of which institutions are fundamental to shaping long run growth paths is somewhat outside the scope of this research. But suffice to say a wide range of institutions could be candidates for consideration; and the how one measures the outcomes of these institutions introduces still more variety and complexity to our task. At such an exploratory stage, it seems preferable to cast the net wide rather than engage in a strategy of more narrow hypothesis testing, which carries the risk that the data will be used to generate foregone conclusions. This is why we tested a fairly broad range of indicators. Moreover, by adopting this strategy, we can shed light on a number of possible relationships between society, community and economic development for more focused research in the future. However, it does also mean that we generate a very high number of relationships to analyse: fifteen dependent variables, each studied in three regression equations.

4.3. <u>RESULTS AND INTERPRETATION</u>

4.3.1. <u>Summary</u>

Both community and society matter in determining the problem-solving capacity, the microeconomic efficiency, the social policy, and the ultimate economic outcomes of our sample countries. In most case, however, bonding forms of community are associated with negative outcomes, particularly with respect to overall levels of growth and important institutional domains that govern the potential for adjustment (e.g. trust, confidence, and participation). Bridging forms of community and the societal rules environment, by contrast, are both associated with positive economic outcomes. However, this pattern is not true across all domains. One exception to this is in the case public goods provision and enrolment in tertiary education, where bonding community is associated with higher levels of expenditure and enrolment respectively, whilst bridging community is associated with lower levels. This suggests that bonding may have an important, beneficial role in supporting the institutions of social policy; it may also serve as an alternative mechanism for conflict resolution in environments of weak rules. Ethnolinguistic fractionalisation, which often gives rise to bonding networks, is strongly associated with negative outcomes across most policy domains, although its direct affect on microeconomic institutions is less clear. Finally, we find that a country's position relative to the technology frontier tends to be associated with positive institutional outcomes, although there may well be some significant endogeneity affecting this result.

What are of particular interest, however, are the results for the regressions that interact community and society at different levels of societal rules. Our findings suggest that the importance of community may depend considerably on the societal environment in which it operates. In most cases, community has a significant association with institutional outcomes only at low levels of societal rules, supporting the idea of community as a substitute for societal rules. There are three cases, however, in which the impact of community is greater when society is stronger: innovation, labour force participation, and enrolment in tertiary education. In the first two of these cases – both of which are critical for the microeconomic environment, particularly in places closer to the technology frontier – society appears to act as a complement to bridging community, strengthening its positive impact. Thirdly, we find a clear pattern by which negative outcomes related to bonding community appear to be moderated in environments of strong rules, indicating that society may well offset some of the potential negative consequences of community.

Finally, our findings for trust indicate a strong relationship with both forms of community as well as society. Overall, the relationship between the independent variables is stronger with trust than with the other dependent variables in our regressions. This may indicate the particular importance of institutions in facilitating trust, and possibly vice versa, and suggests that trust may indeed be a critical foundation for long run economic development. Results are reported below for each group of dependent variables.

4.3.2. <u>Problem solving</u>

<u>Problem-solving: Trust and confidence</u>

Table 4.4 shows the results of the regression models against the dependent variables of *trust and confidence*. The outputs indicate that generalised trust has the strongest association with the explanatory variables amongst all the dependent variables tested in this analysis. Both community and society appear to be important determinants of trust. Model 1 shows that bridging community and societal rules both have strong, positive associations with generalised trust. In contrast, mechanical-based aspects of community – bonding networks and ethnolinguistic fractionalisation – are associated with lower levels of trust. These findings are consistent with the Putnam thesis, broadly in line with Beugelsdijk and van Schaik (2005) but in contrast to several other studies (Knack, 2003; Zak and Knack, 2004) which see no evidence of a significant role for associationalism. The results also support the idea that what may matter most is not association per se, but with whom you associate (Uslaner and Conley, 2003). Higher levels of generalised trust are associated with the presence of groups with instrumental aims (whether civic, economic, or political in nature). One explanation may be that generalised trust is necessary for members of these groups to engage in weak tie, bridging relationships. And positive experiences in engaging in such relationships may further reinforce trust

But what are most interesting are the outputs from models 2 and 3, which indicate that the impacts of community are different depending on the societal rules environment in which they operate. When society is strong (a high rules environment), bridging community has strong, positive association with trust; bonding community, whilst not significant, switches signs and becomes positively associated with generalised trust. In contrast, in an environment of weak society, bonding community is negatively associated with trust and bridging networks exhibit a weaker (though still positive and significant) association with trust. This suggests that societal rules may play an important role in offsetting the potential downsides of bonding community, that of network closure and the creation of in-group / out-group distinctions. Moreover, societal rules appear to reinforce bridging community. This is consistent with the argument that a robust rules environment levels the playing field amongst individuals and raises confidence in the likely behaviour of their exchange partners (Nannestad and Svendsen, 2005). In doing so, it "encourages citizens to take small risks with others that facilitate their learning who is reliable, even trustworthy, and how to distinguish the reliable from those who are not" (Cook, Hardin, and Levi, 2005, p.55).

Ethnolinguistic fractionalisation is associated with lower trust in situations of both strong and weak society; in fact, its impact is at least as strong under a high rules as a low rules environment. This may suggest that ethnolinguistic fractionalisation is a durable source of conflict which, although it may give rise to bonding forms of community, is itself a fundamental force that shapes the structure and functioning of societal institutions. Our findings on fractionalisation are in line with Bjornskov (2005; 2006) and Uslaner (2006) but in contrast with Knack and Keefer (1997) and Zak and Knack (2001). Finally, whilst the position relative to the technology frontier is not significant in model 1, it is strongly associated with higher trust at both high and low levels of societal rules. This may relate to the importance of trust as an institution facilitating exchange in conditions of uncertainty, which tend to predominate both very near and far from the technology frontier.

Table 4.4

	Trust					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	26.951	10.499	13.483	8.263	1.299	9.483
bonding	-2.869*	1.656				
bridging	7.579***	1.488				
rules	6.051***	1.895				
bonding_highrules			2.156	2.662		
bridging_highrules			9.574***	2.570		
bonding_lowrules					-4.788*	2.730
bridging_lowrules					5.357**	2.514
Technology frontier	9.463	10.694	22.594***	7.856	37.084***	8.984
Ex-communist (dummy)	-9.286*	4.686	-12.350***	4.323	-20.010***	4.887

Fractionalization	-17.299***	4.883	-19.992***	4.954	-16.188***	5.766
Adj- Rsq	0.516		0.473		0.302	
F-Statistic	18.742***		18.948***		9.672***	
n	100		100		100	

	Confidence in institutions					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	74.679	12.685	86.289	9.856	85.006	10.069
bonding	-6.121***	2.000				
bridging	5.589***	1.798				
rules	-3.373	2.290				
bonding_highrules			-8.064**	3.175		
bridging_highrules			6.980**	3.065		
bonding_lowrules					-3.402	2.899
bridging_lowrules					3.711	2.670
Technology frontier	-32.665**	12.920	-46.083***	9.370	-45.062***	9.540
Ex-communist (dummy)	-5.613	5.662	1.156	5.156	0.790	10.069
Fractionalization	3.556	5.899	3.974	5.908	4.082	2.899
Adj- Rsq	0.313		0.272		0.236	
F-Statistic	8.605***		8.467***		7.182***	
n	100		100		100	

Confidence in institutions appears in model 1 to be more sensitive to patterns of community than to the rules environment, with bonding community being strongly negatively associated with confidence and bridging community positively associated. This goes against the results of Norris (2000) who finds no relationship between measures of social capital and institutional confidence, and Norris and Inglehart (2004) who argue for a strong, positive association between religious participation and institutional confidence in the US. Again, we find that the affect of community varies significantly depending on the societal environment. Where society is strong, both bonding and bridging community retain their significant associations but are reduced in strength. But in an environment of weak societal rules, both types of community are no longer significant, which suggests that the relationship between individuals, groups, and governance institutions may change substantially as those institutions strengthen or become more pervasive. Indeed, across all levels of society, the strongest relationship by far is the negative association between institutional confidence and the position on the technology frontier, which may in this case proxy for overall level of development of a territory. This reminds us of the argument of Dalton (2004) that the process of democratic modernisation is linked to a declining confidence in the institutions of government. In the absence of community, individuals may face an overly-bureaucratic relationship with the state 'Leviathan'; but by aggregating individual preferences, bridging community at least may offer a mechanism by which individuals can have their voice heard, and thus engage more effectively with governance institutions.

Problem-solving: Conflict resolution

Table 4.5 shows the results of the regression models against three dependent variables related to conflict resolution: legal conflict, socio-political conflict, and political stability. Our findings suggest that community may play an important role in reducing conflict, and that its role is particularly important in environments of weak societal rules. This indicates strong evidence in support of the concept of community as an alternative mechanism to societal rules for resolving disputes (c.f. Greif, 1997). This finding also abates concerns that group membership may accentuate in-group out-group distinctions (Stolle, 1998; Uslaner and Conley 2003) and thereby raise the potential for conflict.

Table 4.5

	Legal conflict					
	1		**2**		**3**	
Model	β	σ	β	σ	β	σ
(Constant)	5.488	4.126	6.948	3.446	12.634	3.273
bonding	-2.033***	.651				
bridging	-0.798	.585				
rules	-1.016	.745				
bonding_highrules			-1.720	1.110		
bridging_highrules			-1.000	1.071		
bonding_lowrules					-2.168**	.942
bridging_lowrules					-1.800**	.868

Technology frontier	1.444	4.202	0.008	3.276	-6.775**	3.101
Ex-communist (dummy)	-3.292*	1.841	-0.530	1.803	-0.022	1.687
Fractionalization	2.077	1.919	1.266	2.066	2.002	1.990
Adj- Rsq	0.236		0.064		0.151	
F-Statistic	6.153***		2.367**		4.563***	
n	100		100		100	

	Sociopolitical conflict					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	5.519	7.637	17.347	6.266	22.526	5.726
bonding	1.772	1.204				
bridging	-3.424***	1.082				
rules	-3.265**	1.378				
bonding_highrules			-1.427	2.019		
bridging_highrules			-0.408	1.949		
bonding_lowrules					2.338	1.649
bridging_lowrules					-6.554***	1.518
Technology frontier	-5.047	7.778	-17.596***	5.958	-23.641***	5.425
Ex-communist (dummy)	-2.042	3.409	1.357	3.278	2.504	2.951
Fractionalization	14.624***	3.552	15.538***	3.757	15.545***	3.482
Adj- Rsq	0.405		0.296		0.409	
F-Statistic	12.331***		9.406***		14.848***	
n	100		100		100	

	Political stability					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	1.093	.467	-1.673	.503	-2.235	.508
bonding	0.019	.074				
bridging	0.089	.066				

rules	0.809***	.084				
bonding_highrules			0.253	.162		
bridging_highrules			0.104	.157		
bonding_lowrules					0.059	.146
bridging_lowrules					0.245*	.135
Technology frontier	-0.576	.476	2.451***	.479	3.125***	.481
Ex-communist (dummy)	0.280	.209	-0.596**	.263	-0.743***	.262
Fractionalization	-0.698***	.217	-0.990***	.302	-0.982***	.309
Adj- Rsq	0.714		0.417		0.403	
F-Statistic	42.559***		15.287***		14.488***	
n	100		100		100	

Looking first at the findings for legal conflict, in model 1 we see that bonding community has a strong, negative association with legal conflict. No other variables show a significant association, with the exception of the control dummy for ex-Communist countries, which is also negatively associated with legal conflict. In model 2, where societal rules are strong, no variables are significant. However, the situation changes significantly in an environment of weak society. Here, both types of community exhibit relatively strong associations, and in contrast to almost all other cases here we find both have the same directional effect. Specifically, higher levels of both bonding and bridging appear to reduce legal conflict. Thus, relationships built on micro trust may be a complement for formal mechanisms to limit conflict, particularly in situations of complexity and uncertainty (Beugelsdijk, 2005) or where there is little confidence in the institutional environment. Interestingly, when society is weak, legal conflict is also lower in places nearer to the technology frontier. This finding is in line with tendency of new industries to use to informal mechanisms for conflict resolution, until formal rules and other mechanisms to address conflict have become well established. But it may equally indicate that places operating near the technology frontier represent smaller, more cohesive communities with better capacities for informal conflict resolution.

Higher levels of socio-political conflict are strongly associated with ethnolinguistic fractionalisation. These results are in line with most of the literature on conflict and institutions (c.f. Easterly and Levine, 1997; Rodrik, 1999; Easterly, 2000; Easterly, Ritzen, and Woolcock, 2006), which find fractionalisation to be associated with higher conflict. In model 1, both community (bridging) and societal rules appear to offer strong capability of reducing socio-political conflict. Once again, we find that when societal rules are strong, community is less important. But in model 3, where society is weak, bridging community becomes strongly associated with lower levels of socio-political conflict. Indeed, even Olson groups alone show a strong negative association with socio-political conflict. Highly mobilised special interest groups (Olson) therefore may not have a destabilising political effect. Along with the results on fractionalisation it suggests the interesting possibility that the clash of political and social ideals or of economic interests may lead to conflict only where there is also a strong identity-based cleavage that acts as an aggravating or mobilising factor. Whilst bonding community is not significant in any of the models, we again see a pattern whereby its sign changes in environments of high and low societal rules, suggesting that societal rules help keep in check potential deleterious effects of bonding community.

Finally, the regressions on political stability indicate no strong relationships with community factors, although again ethnolinguistic fractionalisation is associated in all models with lower levels of stability. We see in model 1 that the rules environment is by far the most important factor, with societal rules being strongly associated with higher levels of political stability. Position relative to the technology frontier is also a particularly strong indicator of political stability at both high and low levels of societal rules, suggesting the importance of macro political stability in more uncertain economic environments.

4.3.3. *The micro-economic environment*

Participation

Table 4.6 shows the results related to participation in the micro-economic environment: labour force participation and the level of the unofficial or informal economy.

Table 4.6

	Labour force participation					
	1		**2**		**3**	
Model	β	σ	β	σ	β	σ
(Constant)	70.767	6.283	82.305	5.159	72.400	5.496

bonding	0.759	.991				
bridging	4.571***	.890				
rules	-1.764	1.134				
bonding_highrules			-0.491	1.662		
bridging_highrules			6.159***	1.604		
bonding_lowrules					1.526	1.583
bridging_lowrules					3.142**	1.457
Technology frontier	-10.099	6.399	-23.639***	4.905	-11.983**	5.207
Ex-communist (dummy)	5.200*	2.804	6.210**	2.699	3.936	2.833
Fractionalization	0.829	2.922	3.072	3.093	2.920	3.342
Adj- Rsq	0.406		0.331		0.197	
F-Statistic	12.371***		9.406***		5.905***	
n	100		100		100	

	Size of the unofficial / informal economy					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	15.243	7.625	53.067	7.201	55.765	7.345
bonding	2.098*	1.202				
bridging	-0.851	1.081				
rules	-10.778***	1.376				
bonding_highrules			-4.508*	2.320		
bridging_highrules			0.266	2.239		
bonding_lowrules					3.144	2.115
bridging_lowrules					-2.409	1.947
Technology frontier	9.287	7.767	-31.981***	6.846	-35.374***	6.959
Ex-communist (dummy)	2.142	3.404	11.079***	3.767	14.251***	3.786
Fractionalization	6.604*	3.546	12.231***	4.317	10.159***	4.466
Adj- Rsq	0.591		0.359		0.329	
F-Statistic	25.047***		12.184***		10.828***	
n	100		100		100	

Turning first to labour force participation, there is evidence of a strong, positive association with bridging community across all three models. In this case, the bridging community is strongest where societal rules are also strong, suggesting a complementary relationship whereby instrumental networks can be potentiated and facilitated by a transparent rules environment. Again, we see that bonding community, whilst not significant, switches signs in different rules environments. It may be the case when rules are weak, individuals can rely on close personal networks to facilitate participation, but in environments of strong rules, the effectiveness of such clientelistic networks is significantly reduced. Overall, our findings support theories of strong and weak ties (Granovetter, 1973) and the role of community social networks (Uzzi, 1997) and formal associations (Aguilera and Bernabe, 2000) in providing access to economic opportunities, or in limiting those opportunities when networks are too narrow.

The societal rules environment appears to be the most significant factor associated with the level of the informal economy in our sample. Strong society is highly negatively associated with the size of the unofficial economy, suggesting that where societal rules are perceived as fair and political voice is available, people are more willing to operate within a transparent economic environment, paying taxes and complying with labour regulations. Bonding community and ethnolinguistic fractionalisation, however, are both associated with higher levels of the informal economy. This is likely to be a function of the nature of the networks available to these communities and the ability of these networks to operate outside of the reach of society (or the 'long arm of the law'). However, bonding community only appears to have strong explanatory power where society is weak, whilst fractionalisation has a strong impact regardless of the level of societal rules. This again suggests the durability of fractionalisation and the likelihood that fractionalisation impacts not only community networks but also the very functioning of societal institutions. Bonding community networks, meanwhile, appear able to be attenuated by strong rules.

Entrepreneurship and innovation

Table 4.7 shows the results related to entrepreneurship and innovation. The results related to entrepreneurship are weakened by the limited number of observations available (only 67). As a result we introduced a second dependent variable that could proxy as an indicator for the relative dynamism of the firm environment – the share of SMEs in industry. Note, however, that this measure too suffers from limited observations.

Table 4.7

	Entrepreneurship					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	7.009	5.589	18.556	4.301	16.966	4.428
bonding	0.848	.756				
bridging	0.635	.714				
rules	-2.794***	.989				
bonding_highrules			1.299	.924		
bridging_highrules			0.469	.896		
bonding_lowrules					-0.151	1.440
bridging_lowrules					-1.629	1.867
Technology frontier	0.535	5.616	-12.589***	3.968	-10.770**	4.075
Ex-communist (dummy)	-2.597	2.329	1.041	2.000	-0.598	2.030
Fractionalization	1.657	2.092	1.676	2.126	2.563	2.198
Adj- Rsq	0.247		0.218		0.161	
F-Statistic	4.671***		4.726***		3.562***	
n	67		67		67	

	SME share of employment					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	67.100	21.261	15.733	20.742	22.496	17.863
bonding	-7.680***	2.217				
bridging	-1.478	1.921				
rules	8.271***	2.885				
bonding_highrules			-1.114	4.233		
bridging_highrules			-3.091	3.375		
bonding_lowrules					-14.105***	3.051
bridging_lowrules					5.481*	2.780
Technology	-2.662	21.248	52.227***	19.096	45.453***	16.522

frontier						
Ex-communist (dummy)	-19.222***	5.905	-22.542***	5.502	-25.024***	4.741
Fractionalization	-2.276	7.788	-6.167	9.033	-3.974	7.852
Adj- Rsq	0.479		0.233		0.428	
F-Statistic	10.188***		4.651***		9.971***	
n	60		60		100	

	Innovation					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	-2.218	2.065	-5.113	1.665	-8.123	1.923
bonding	-0.331	.313				
bridging	1.330***	.275				
rules	1.219***	.353				
bonding_highrules			-0.563	.494		
bridging_highrules			2.480***	.478		
bonding_lowrules					-0.094	.548
bridging_lowrules					0.704	.482
Technology frontier	5.174**	2.122	8.120***	1.618	11.613***	1.851
Ex-communist (dummy)	-2.368**	.895	-3.375***	.815	-4.489***	.953
Fractionalization	-1.352	.909	-1.695*	.930	-1.481	1.100
Adj- Rsq	0.559		0.515		0.330	
F-Statistic	21.724***		21.827***		10.637***	
n	98		98		98	

The results for entrepreneurship are weak. Overall, we fail to find any support for the significant role of informal social networks in facilitating entrepreneurship as outlined in the literature (c.f. Aldrich and Zimmer, 1986; Saxenian, 1994; Storper, 1997). We find only a negative association with societal rules and with position relative to the technology frontier. The latter finding, at least, appears counterintuitive. It may be the case that the data on entrepreneurship is not effectively distinguishing between forms of entrepreneurship that are responses to market opportunities (whether Schumpeterian, Kirznerian, or Knightian) and those that become entrepreneurs out of necessity (i.e. there are insufficient opportunities for other forms of employment). Delving further into the data on bridging community and separating it into its components of Olson and Putnam membership, we find a positive association with Olson membership, which is consistent with theories of instrumental networks providing "structural holes" (Burt, 1995) through which members may gain access to valuable resources and networks that facilitate entrepreneurialism.

Our alternative dependent variable for firm-level dynamism – the share of SMEs in industry – has much different results. Here we find that bonding community is associated with a lower share of SMEs and bridging with a higher share. As we have seen in previous results, community variables only appear to have explanatory power in environments of weak society. Whether these findings suggest that bonding communities are associated with less dynamic processes of firm formation, however, is unclear.

The results on innovation indicate a strong, positive association with both bridging community and society (rules). In addition, as would be expected, territories closer to the technology frontier are strongly associated with higher levels of innovation, supporting Aghion and Howitt's (2006) contention that innovation is the most important determinant of growth at the technology frontier. Again, we find that the impact of community is dependent on the level of the society in which it operates. However, in this case, bridging community is strongest (and positively associated with innovation) where societal rules are also strong. Thus, as was the case with labour force participation, societal rules and bridging community appear to reinforce each other to facilitate positive institutional outcomes. This is in line with Knight's (1921) version of entrepreneurship, indicating that where societal rules create the incentive to realise profit opportunities through productive endeavours, innovative activities are likely to be undertaken; but where the most sustainable profit opportunities arise from rent seeking (more likely in an environment of weak societal rules), entrepreneurial energies are likely to be diverted to non-productive ends. Finally, we find a relatively weak, negative association between fractionalisation and innovation. This goes against theories of that suggest diversity is important for innovation (c.f. Florida, 2002; Storper and Venables, 2006); however, there is likely be a signficant difference in the 'diversity' resulting in fractionalised ethnolinguistic environments and the type of diversity that may arise through the concentration of highly skilled workers in urban environments.

4.3.4. Social policy

Table 4.8 shows the results of tests of social policy variables: public goods provision, redistribution, and investment in tertiary education. Societal rules appear to be a more powerful determinant of outcomes in social policy than do measures of community. Within community, we find that bonding networks tend to be associated with higher levels of social policy provision and bridging networks with lower levels. This is an interesting, and perhaps important finding, as both forms of community exhibit relationships with the dependent variables that are essentially opposite directionally from their relationships in other institutional domains. This suggests that bridging communities may exhibit more Olson than Putnam characteristics with respect to social policy outcomes. It also suggests that places where bridging communities are strong may favour policies that focus on productivity over redistribution; the flip side of this, however, is that these places may risk long-term growth prospects by failing to compensate economic and political losers through redistribution.

Figure 4.8

	Public goods provision					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	6.112	1.604	0.846	1.429	-0.468	1.451
bonding	.755***	.253				
bridging	-.357	.227				
rules	1.713***	.290				
bonding_highrules			0.626	.460		
bridging_highrules			0.523	.444		
bonding_lowrules					1.101***	.418
bridging_lowrules					-0.728**	.385
Technology frontier	3.487**	1.634	9.299***	1.359	10.912***	1.375
Ex-communist (dummy)	-.581	.716	-2.667***	.748	-2.975***	.748
Fractionalization	-1.559**	.746	-2.070**	.857	-2.111**	.882
Adj- Rsq	0.641		0.500		0.482	

F-Statistic	30.813***	20.982***	19.587***
n	100	100	100

	Redistribution					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	5.312	6.027	-18.116	5.457	-22.351	5.443
bonding	-0.734	.950				
bridging	1.311	.854				
rules	6.658***	1.088				
bonding_highrules			-1.008	1.758		
bridging_highrules			2.778	1.697		
bonding_lowrules					1.053	1.567
bridging_lowrules					1.512	1.443
Technology frontier	9.063	6.139	34.799***	5.188	39.733***	5.157
Ex-communist (dummy)	1.912	2.690	-5.274*	2.855	-5.732**	2.805
Fractionalization	-3.101	2.803	-5.405	3.271	-5.886*	3.310
Adj- Rsq	0.604		0.429		0.429	
F-Statistic	26.378***		16.037***		16.038***	
n	100		100		100	

	Enrolment in tertiary education					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	1.795	9.278	-19.653	7.134	-22.075	7.649
bonding	1.920	1.459				
bridging	-0.878	1.311				
rules	6.491***					
bonding_highrules			8.989***	2.274		
bridging_highrules			-4.433**	2.196		
bonding_lowrules					-2.651	2.180
bridging_lowrules					2.434	2.009
Technology	21.168**	1.671	44.529***	6.807	47.807***	7.270

frontier						
Ex-communist (dummy)	-5.716	9.454	-12.787***	3.709	-15.914***	3.917
Fractionalization	5.845	4.138	3.124	4.249	5.255	4.620
Adj- Rsq	0.436		4.322		0.333	
F-Statistic	13.613***		15.378***		10.768***	
n	98		98		98	

Bonding community and societal rules are both associated with higher levels of public goods provision. However, again we find that community matters most when societal rules are weak. In this case, neither bonding nor bridging has a significant association with the dependent variables when societal rules are strong, but when they are weak bridging is negatively associated and bonding positively associated with public goods provision. These findings are in line with the Olson (1971) hypothesis, which suggests that interest groups lead to an underproduction of public goods. The strong positive variation between bonding communities and public goods may challenge neo-Tocquevillean accounts of social capital, which view communities as alternatives to the state for the provision of public services. We also find that fractionalisation is associated with lower levels of public goods provision in both strong and weak societal contexts, in line with Alesina, Baqir, and Easterly (1997) and Easterly and Levine (1997) who argue that the existence of competing groups reduces the provision of public goods.

Income redistribution appears to be unaffected by aspects of community; societal rules are by far the most important determinant of income redistribution, with higher levels of redistribution coinciding with stronger societal rules. Position relative to the technology frontier is also strongly, positively associated with redistribution, which may reflect the variable's relatively strong correlation with overall levels of economic and social development. We also find that fractionalisation is negatively associated with redistribution, although the relationship is weak and is only significant in environments of low societal rules.

Finally, enrolment in tertiary education – an indicator of socioeconomic confidence as well as a measure of a society's broad commitment to equality of opportunity – is positively associated with strong societal environments and bonding community. As was the case with labour force participation and innovation, rather than playing a role as a substitute to societal rules, here community appears to be a complement. The difference in this case is that bonding community is linked with higher levels of enrolment and bridging with lower levels. Again, we find a strong, positive relationship with a country's position on the technology frontier, which supports the importance of human capital at higher levels along the frontier (Aghion and Howitt, 2006).

4.3.5. *Economic outcomes*

Finally, Table 4.9 presents the outcomes of regressions against two dependent variables representing economic outcomes: growth and the volatility of growth. The main focus of this research is to examine the impacts of community and society on institutional outcomes that shape socioeconomic action. Therefore, these results represent simply an initial, exploratory look at the next step: the relationship of community and society with ultimate economic outcomes. As expected, the regression models for both dependent variables show very weak explanatory power. However, the purpose here is not to build a holistic model to explain growth and volatility but simply to test the relationships between these outcomes and our measures of community and society. Across all both dependent variables we find that bridging community and societal rules are associated with positive economic outcomes, and that the role of community is most powerful where societal rules are weak.

Table 4.9

	Growth					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	1.103	.308	0.988	.233	1.046	.226
bonding	-0.092	.049				
bridging	0.045	.044				
rules	0.024	.056				
bonding_highrules			0.107	.075		
bridging_highrules			-0.086	.072		
bonding_lowrules					-0.173***	.065
bridging_lowrules					0.106*	.060
Technology frontier	-0.614*	.314	-0.501**	.221	-0.567***	.215
Ex-communist	-0.187	.137	-0.129	.122	-0.191	.117

(dummy)						
Fractionalization	-0.377***	.143	-0.433***	.140	-0.369***	.138
Adj- Rsq	0.099		0.094		0.139	
F-Statistic	2.834**		3.076**		4.236**	
n	100		100		100	

	Volatility of growth					
	1		2		3	
Model	β	σ	β	σ	β	σ
(Constant)	-0.010	.012	0.035	.010	0.040	.010
bonding	0.004*	.002				
bridging	-0.003*	.002				
rules	-0.012***	.002				
bonding_highrules			-0.001	.003		
bridging_highrules			-0.001	.003		
bonding_lowrules					0.003	.003
bridging_lowrules					-0.007***	.003
Technology frontier	0.040***	.012	-0.009	.010	-0.015	.010
Ex-communist (dummy)	0.016***	.005	0.028***	.005	0.030***	.005
Fractionalization	-0.002	.005	0.003	.006	0.003	.006
Adj- Rsq	0.442		0.210		0.260	
F-Statistic	14.188***		6.329***		8.038***	
n	100		100		100	

Our results show that bonding community has a strong, negative association with growth when societal rules are weak. However, this is significantly attenuated in environments of strong societal rules. Once again, it supports the idea of bonding community as a barrier to growth, and of society as a brake on the negative consequences of this form of community. Bridging, by contrast, shows a weak but significant positive association with growth. We also find, as has been the case with many of the institutional domains, ethnolinguistic fractionalisation has a strong association with negative outcomes, one that is unable to be kept in check by strong societal rules. Finally, we find that a strong rules environment and bridging forms of community are both associated with less volatility in economic growth. Bridging community appears to act here as a substitute where societal rules are weak.

4.4. DISCUSSION

4.4.1. *Review of findings and areas for future research*

Table 4.10 below summarises the results of the quantitative research. Our analysis provides broad support for the idea that community and society, both individually and in interaction, help shape three institutional features of economies that have been argued to determine long-term economic development. In addition, there is evidence to suggest that community and society may reinforce one another, counteracting the potential negative consequences of each in isolation and potentiating each other's positive outcomes. Finally, there is strong evidence to indicate that the role and impact of community may depend significantly on the societal environment in which it operates (and most likely vice versa).

Table 4.10: Summary of results

		Model 1			Model 2		Model 3		Controls[10]		
	Dependent variables	Bond	Bridge	Rules	Bond_ highrules	Bridge_ highrules	Bond_ lowrules	Bridge_ lowrules	Tech Frontier	Ex-Comm	ELF[11]
Problem solving	Trust	-	+++	+++		+++	-	++		-	---
	Confidence	---	+++		--	++			---		
	Legal conflict	---					--	--		-	
	Sociopolitical conflict		---	--				---			+++
	Political stability			+++				+			---
Micro-economic environment	Labour force participation		+++			+++		+++		+	
	Informal economy	+		---	-						+
	Entre - preneurship			---							
	SME share	---		+++			---	+		---	
	Innovation		+++	+++		+++			++	--	
Social policy	Public goods provision	+++		+++			+++	--	++		--
	Re-distribution			+++							
	Tertiary			+++	+++	--			++		

[10] Significance shown for Model 1 only
[11] Ethno-linguistic fractionalization

		Model 1			Model 2		Model 3		Controls[10]		
	Dependent variables	Bond	Bridge	Rules	Bond_ highrules	Bridge_ highrules	Bond_ lowrules	Bridge_ lowrules	Tech Frontier	Ex-Comm	ELF[11]
	enrolment										
Economic outcomes	Growth						---	+	-		---
	Volatility		+	-				---	+++	+++	

Figures in boxes indicate positive (+) or negative (-) association between independent and dependent variables; +++ and --- indicate significance at 1%, ++ and - - at 5%; + and – at 10%

On the specific issue of trust, the model provides some evidence of how North's concept of adaptive efficiency (North 1990) may be determined in economic institutions. The strong association with generalised trust indicates that community and society are particularly important determinants of trust, and suggests that trust may play an even greater role in shaping economic outcomes than is recognised in the current growth literature.

Different aspects of community and society matter for different institutional domains. Overall, bridging forms of community appear to be related with positive outcomes and bonding forms of community with negative ones. Bridging community appears to be particularly important in problem solving and microeconomic institutions. Whilst bonding relationships do appear to play a more important and positive, role in social policy institutions. This suggests the possibility that such relationships facilitate collective action for political ends. It appears, therefore, that bridging community perhaps represents a more modern, 'progressive' form of associationalism. However, bonding may still be important as a form of community to facilitate 'getting by', whilst bridging reinforces 'getting ahead'. Both bonding and bridging appear to be important in environments of high uncertainty, but they seem to function at opposite ends of the technology frontier.

Finally, the results for our regressions against final economic outcomes are broadly in line with those of the institutional domains: community bridging and societal rules facilitate positive outcomes (higher growth, less volatility), whilst bonding forms of community tend to be associated with negative economic outcomes, particularly where societal rules are weak. This supports our broad hypothesis. However, the overall explanatory value of these regressions is limited, and we have not attempted here to link these with institutional domains through which we suggest community and society operate on economic outcomes.

This first attempt to operationalise and test the impact of groups and formal rules on institutions and macro level outcomes opens a number of areas for future research. An important next step will be to move beyond the institutional domains considered here and trace further how they go on to shape long-run economic development outcomes, including income levels, income growth, and income distribution. As noted above, the research can develop clear mechanisms through which community and society impact growth and development via the institutional pathways outlined here. In addition, the finding here that community functions differently in different socioeconomic contexts is significant; further work can now focus on the mechanics through which community and society interact in these different contexts. Additional light might also be shed on the links between community, society, and generalised trust, which could help us better understand the relationship between social capital and economic growth. Finally, as additional data on community becomes available from ongoing social capital research, more robust models should be possible, with more focused hypothesis-testing and modelling of the relationships that are examined in an open-ended way here. In any event, the research reported here supports our main contention, that society and community in interaction have important relationships with critical institutions that shape processes of economic adjustment and long run growth.

4.4.2. *The regional context*

What does this tell us about growth and adjustment in the regional context? As noted at the beginning of the chapter, limitations on data that could adequately differentiate institutional forms and outcomes at the regional level meant that the quantitative analysis presented in this chapter had to be conducted at the country level. However, there is no reason to believe that the findings of this cross-country research cannot be generalised to the regional level. Indeed, many of the important manifestations of community and society – levels of trust, associationalism, aspects of governance – vary as much within countries as across them. And given that regional growth and adjustment across regions of the same country will be strongly affected by common macroeconomic policies and environments, these institutional features may well be an even greater determinant of differential growth.

In any case, the findings from this initial quantitative investigation open up many questions for further, more detailed research, as discussed above. Studies of how community and society interact in specific microeconomic contexts can provide a richer set of findings to complement the quantitative relationships described here. In Chapters 5 and 6, we will explore such relationships through two sets of city-level case studies: in Chapter 5 with the cities of Sheffield and Leeds in England; and in Chapter 6 with the cities of Montréal and Toronto in Canada.

Chapter 5: Case studies of regional adaptation – Sheffield and Leeds

5.1. CASE STUDY METHODOLOGY

The quantitative analysis conducted in Chapter indicates that the hypothesis that "community and society matter" for growth is supported; it also suggests some of the ways in which aspects of community and society shape growth and the institutions on which they have influence. However, the quantitative analysis is necessarily limited in how rich an explanation it can give, particularly on the question of *how* the relationship between community, society and processes of growth and adaptation actually play out in real-life contexts. Therefore, the aim of the case study component of this research, presented over the next two chapters, is to gain a richer understanding of the dynamics through which community and society forces shape processes of adaptation in specific micro-economic contexts.

The research employs a comparative case study methodology. Two sets of paired cities are analysed and their processes of adaptation traced from the early-mid 1970s through the early-mid 2000s. The city-region level was selected as the unit of analysis as it is the hypothesis of this research that the region is the spatial level at which the dynamics of community and society forces play out most clearly. The city-pairs were selected with the aim of controlling as much as possible for macro-level economic, political, and geographical factors. As such, each pair of cities come from the same country and are located fairly close to each other. The city-pairs were also selected on the basis that each city faced a relatively similar set of economic changes and challenges at the outset of the 1970s – namely processes of industrial restructuring that was threatening the traditional bases of the economy in the city-regions. The cases covered are: in Chapter 5, Leeds and Sheffield (England); and in Chapter 6 Montréal and Toronto (Canada).

The research methodology used in analysing the cases presented in this chapter and the next was elite interviews supported by extensive secondary document research. In each city-pair, thirty five interviews were completed[12]. The interviewees were chosen to ensure a relatively

[12] Although for the most part interviewees were asked to discuss one or the other city, in several cases interviewees were in a position to provide informed input on both cities in the pair (Sheffield and Leeds or Montréal and Toronto) and so were interviewed as informants for both cities.

balanced view across the many communities in each city, and of the many types of actors who play a role in shaping economic and social policy in the cities. Interviewees were also selected to ensure that sufficient insight was provided across the relatively long historical period (1970 to present) covered in these case studies. Approximately one-third of the interviewees were with current and former senior members of government, including local and nationally elected politicians and civil servants. Another one-third of interviews were conducted with leading members of the business community, including heads of major companies and chambers of commerce and other business organisations. Most of the remaining interviews were with directors of chief executives of community and voluntary sector organisations. Finally, several interviews were conducted with local academics who have written extensively on issues related to the economy, culture, and society of the cities.

Interviews were conducted on a semi-structured basis and averaged approximately one hour each. For the Montréal and Toronto case study, approximately half of the interviews were conducted by telephone between June and August 2007 and half in person during a field visit to Montréal and Toronto during 1-10 July 2007. For the Sheffield and Leeds case study, the large majority of interviews were conducted in person on field visits to Leeds (29-30 July 2008 and 11-12 August 2008) and Sheffield (5-6 August 2008 and 26-27 August 2008), with the remainder conducted by telephone during August and September 2008.[13]

The interviews were supported by extensive review of secondary research across the cities. For the Montréal and Toronto case study, this covered more than 120 documents relating to both cities. An important limitation to note is that all documents reviewed were in English. Although this included a number of documents which were originally written in French and translated to English, no documents were reviewed in their original French. This may have some impact on the perspectives gained on institutions in Montréal, although we have attempted to be as objective as possible and to gather input from all relevant communities in the city. For the Sheffield and Leeds case study, secondary research involved a review of more than 80 documents relating to both cities, including books, academic papers, policy research, government research and statistics, policy and strategy documents (e.g. city economic

[13] And in one case an in-person interview was conducted in London in July 2008

development strategies, investment promotion strategies, etc.), and an extensive review of local press in both city regions.

5.2. INTRODUCTION

"Cities never die, they just go through cycles. Sheffield was powerful when Leeds was a right bag. But lots of little entrepreneurs in Leeds pulled it up from its bootstraps, while Sheffield was arrogant" (personal interview, G. Bridge, 26 August 2008)

The quote above, from a leading industrialist in Sheffield, is a keen observation on the widely divergent patterns of economic growth experienced in the Yorkshire cities of Sheffield and Leeds in recent decades. This case study explores how the structures of community and society in these cities acted as important underlying forces shaping economic and political processes of adaptation, and ultimately their economic outcomes over an approximately 30-year period since the early 1970s.

The broad development of Sheffield and Leeds over the last two centuries followed England's historical pattern of economic geography, whereby northern cities specialised in industrial sectors, feeding the trade, services, and consumption engine of the Southeast. Both followed a relatively similar pattern of growth from the mid 19th through the mid 20th century, and have since faced substantial economic challenges resulting from pressures on their traditional industrial bases. Between 1971 and 2006, the manufacturing sector's contribution to GDP in the UK declined from 43% to 24% (World Development Indicators, 2008), with more than half of this decline occurring during the 1980s. This raised significant challenges for the continued prosperity and indeed survival of many industrial cities in Northern England. Problems of long-term unemployment and subsequent social disintegration highlighted the critical need for large-scale economic restructuring.

Nowhere was this felt more acutely than in Sheffield – the 'city of Steel' – which faced a profound economic crisis from which it has only recently begun to recover. The breadth and depth of the decline in Sheffield was unparalleled in England for at least a generation, with unemployment jumping from under 5% at the end of the 1970s to over 16% by 1987 (Hey, 1998). By contrast in Leeds – the 'city of 1,000 trades' – England's manufacturing crisis of the

1970s and 1980s acted as a catalyst for economic transformation (Haughton and Williams, 1996b). Following Leeds' century-long pattern of economic diversification and structural adjustment, the financial and business services sectors offset the decline in the city's traditional manufacturing sectors. Over this period, Leeds has developed one of the most robust regional economies in the UK.

In this chapter and the next, we argue that institutional factors help explain the differing responses to external change in cities, and as a result, their differing economic outcomes. Specifically in this chapter, we show that Leeds and Sheffield have developed very different patterns of community-level bonding and societal bridging and that this has affected the economic incentives faced by individuals and groups, and the functioning of economic, political, and social institutions in each city. This, we contend, played a role in determining the differing responses to changing structures of industrial competitiveness, and subsequently the degree and speed by which Sheffield and Leeds adapted to them. In the case of Sheffield, the city's strong local identity and a community structure characterised by tight bonding, led to relatively high levels of particularised trust and commitment. However, it had enclave features, with few bridges across groups within the city and almost no links outside it. Moreover, a traditionally paternalistic relationship amongst individuals and within institutional structures allowed the state to take control of the main institutions of society, hindering transparency and predictability. The result was an environment which provided few incentives for change. Elites in the business community were comfortable and isolated from sources of knowledge outside the community, city residents generally deferred to their local union and the City Council, and the City Council was for a long time too insulated from political competition or external catalysts to seek change. But in favouring continuity, Sheffield succeeded only in building up the pressure to a point that, when change inevitably came, it did so with the force of a revolution, one which the city was ill-prepared to address. Knee-deep in the crisis, the city's elite exacerbated the situation by its failure to realise the need for consensus and compromise, and the weakness of communities meant there were few pressuring the elite to act. In the end, it took external agents to catalyse a cooperative response, but by then it was all they could do to focus on preventing the city from entering a terminal spiral (Taylor, Evans, and Fraser, 1996). On the other hand, the strength of Sheffield's strong bonding community provided the basis of its recovery, enabling the city to mobilise and achieve consensus relatively quickly once leaders accepted the need for concerted action. Over the past decade in particular, the city has undergone a substantial change in its community and society structures, leading to increased levels of associationalism and more transparent societal institutions. At the same time, the legacy of paternalism and of an enclave community continues to jeopardise the sustainability of Sheffield's recent economic recovery.

Leeds, by contrast, is a much more individualistic than communitarian city, with a culture of aggressive entrepreneurs and highly instrumentalist networks that tend to bridge across groups and extend outside the bounds of the city. These networks operate in the context of societal institutions that are transparent and growth orientated. The City Council in Leeds has historically been pragmatic and consensual. It sets the broad framework by which economic agents should interact but does little in the way of intervention, neither setting direction nor blocking paths. The structure of community and society has also supported diversity both in the economic and in the policy environment, facilitating ongoing processes of incremental adjustment. Leeds' slow and steady development is sometimes viewed as indicating a lack of ambition – a city which has "failed to project itself" (Haughton and Williams, 1996). It is also seen, in contrast to Sheffield, to have developed on the back of a relatively unchecked property market, guided by "aspirations and principles" rather than a clear plan (personal interview, K. Grady, 29 July 2008). For most of its residents, however, stable growth and employment is likely to be adequate compensation for what the city may lack in terms of a public profile, cultural facilities, or iconic landmarks. Perhaps the more important downside in Leeds is that as a highly market-led economy, it has experienced growing disparities in income and socioeconomic outcomes in recent years. The relative strength of elite, business sector-led networks and the development of a Molotch-style "corporate city" growth coalition (Molotch, 1976; Haughton and Williams, 1996) has to some degree muted the voice of communities which have failed to share in the growth during Leeds' 'boom' period. Although a number of institutional structures in the city aim to address this gap at various levels, it remains the single biggest risk factor to the continued sustainability of the Leeds success story.

This chapter is structured as follows. The next section introduces Sheffield and Leeds and traces their historical developments and recent economic changes. Following this, we examine the nature of community and society in both cities. We then look at how community and society has changed in recent years, particularly through local strategic partnership structures. Finally, we explore how these structures of community and society influenced economic institutions and shaped the processes of regional adaptation in both cities.

5.3. <u>THE DEVELOPMENT PATHS OF SHEFFIELD AND LEEDS</u>

5.3.1. <u>Historical developments and changing trajectories</u>

Sheffield and Leeds have long been important market towns and administrative centres in the Yorkshire region. Both cities built specialised industrial complexes from the Middle Ages, which facilitated rapid growth during the Industrial Revolution. Sheffield became highly specialised in coal and cutlery; by the 17^{th} century 60% of all males worked in the cutlery trade and by the end of that century Sheffield was the undisputed global centre of the industry (Hey, 1998). With the opening of the Sheffield Canal in 1819 and the development of large scale, vertically integrated steel and cutlery factories, the city grew rapidly in terms of both demographic and economic stature. By the middle of the 19^{th} century, Sheffield was responsible for 90% of Britain's steel output, and half of all of Europe's (Hey, 1998). And with industrialisation, the city's population expanded from only 30,000 by 1800 to over 135,000 by 1850. Growth in Leeds during the 17^{th} and 18^{th} centuries was similarly based on the development of specialised trade from medieval times, woollen cloth. By the 1800s the West Riding area of Yorkshire, encompassing Leeds, Bradford, and Halifax amongst other towns, had developed into the largest textiles industrial district in the world. Leeds participated in manufacturing across all parts of the sector, but specialised in finishing and also played an important role as a transport hub for the region, linking to the South via the Aire and Calder Navigation and to the West via the Leeds and Liverpool Canal (Thornton, 2002).

Already by the second half of the 19^{th} century, faced with declining regional competitiveness in textiles manufacturing, Leeds responded by moving downstream into higher the value-added and trading segments including ready-made clothing and wholesaling, facilitated in large part by the influx of Jewish immigrants into the city (Bateman, 1986). Innovations by local entrepreneurs, most of which started in the textiles industry, also established the foundations for the development of what would become a thriving engineering sector in the city. By the beginning of the 20^{th} century a relatively diverse manufacturing base had developed, including coal, engineering, leather, chemicals as well as newly emerging sectors like clothing, footwear, beverages, and printing (Thornton, 2002). During this same period in which Leeds was diversifying, Sheffield was consolidating its competitive position within narrow segments of the metals sector, establishing the 'dual economy' that would characterise the city up until the 1990s (Taylor, Evans, and Fraser, 1996). The steel sector, spurred on by locally-developed innovations (e.g. Bessemer's converter and Brearley's stainless steel) came to be dominated by large, vertically integrated factories, whilst the cutlery sector, remained characterised by family firms operating in small-scale workshops.

Throughout the 20th century Sheffield maintained this highly specialised economy, despite periodic threats to its sustainability. Major declines in steel industry following the first World War and again during the 1930s resulted in unemployment rates over 30% in the city. The metals sector recovered strongly as a consequence of World War II, but by the 1960s significant international competition began to emerge from countries like Germany, Japan, Taiwan, and Hong Kong in special steels, hand tools, and cutlery (Hey, 1998). Yet in the face of both cyclical and structural challenges, there appeared to be no sufficiently strong coalition in the city pushing for diversification (Niemi, 2001/2). The steel industry's response to these challenges was to adopt new technologies, merge to create ever larger, more efficient production units and wait for the inevitable upturn in the business cycle. The sector remained competitive thanks largely to its technological leadership and pool of skilled labour. But despite boom conditions at the end of the 1960s, it was becoming increasingly clear that employment levels could not be maintained into the future. The cutlery sector proved more resistant to change, generally eschewing automation and maintaining traditional production techniques. According to Hey (1998, p. 235), "The ethos and structure of the industry remained Victorian... their management was complacent, parochial, and amateurish". At the same time, as competition intensified at the end of the 1960s, the industry increasingly consolidated production and undermined its traditionally integrated network of subcontracting, which formed the basis for the industry's competitive social division of labour (Hayter and Patchell, 1993).

During this same era Leeds was experiencing a continual shift in its economic structure, resulting in greater diversification within manufacturing as well as significant growth in the services sector, particularly in wholesale distribution and trade. Between 1949 and 1965, manufacturing employment in Leeds declined by more than 20% (a loss of more than 30,000 jobs), but this was offset by equal employment gains in services (Bateman, 1986), a pattern which would continue through to the end of the century. Yet at the end of the 1960s, manufacturing remained the most important sector in the Leeds economy and within this the textiles, clothing, and footwear sector was still the single largest employer in the city. In 1971 manufacturing accounted for more than 40% of employment in Leeds, a figure only slightly below that of Sheffield (Townroe, 1996; Mackett, 1984).

So entering the 1970s the writing was on the wall for many of the key sectors that underpinned the Sheffield and Leeds economies, including textiles, clothing, and steel as well as coal, which was the lifeblood of many of the outlying towns within the city-regions. Far from being a silent threat, the dangers of overreliance on a narrow range of sectors was prominent in the region's policy discourse. The Yorkshire and Humberside Economic Planning Council's 1966 review (1972, p.1) drew attention to the region's "heavy dependence for employment on a number of basic but declining industries". Their 1975 strategy focused on diversification, promoting the development of the cities as centres for office activity and noting, in the case of Sheffield, that growth in the service sector should be expected to balance out further, inevitable declines in manufacturing employment.

The reality unfolded somewhat differently. Sheffield managed to avoid significant manufacturing sector decline throughout most of the 1970s and in fact remained one of England's most prosperous cities outside of London (Henneberry, 1995). However, the effect of price shocks in the global steel industry, which led to partial re-nationalisation of the sector in the 1970s, eventually resulted in substantial consolidation and restructuring in South Yorkshire, triggering job cuts on a scale unforeseen by even the gloomiest predictions. Between 1978 and 1984 manufacturing employment contracted by 48%, resulting in 60,000 job losses in Sheffield (Watts, 1991). The city's failure to make any substantial progress toward developing a viable services sector or to diversify its manufacturing base during the 1970s meant few of these jobs could be absorbed elsewhere in the econonomy. In 1981, manufacturing accounted for 44% of GDP (the same share as a decade earlier) in Sheffield versus only 32% nationally (Watts, 1991), and the sector itself was highly specialised:

metalworking was responsible for nearly 80% of manufacturing employment (Hey, 1998). Outside of retail and the public sector there were virtually no developed services sectors in the city well into the 1990s.

Unemployment and industrial unrest were problems in Leeds as they were elsewhere in the country, culminating in the 1978-79 'winter of discontent' and contributing to the 1981 Chapeltown riots (Thornton, 2002). But Leeds avoided the scale of economic shock and subsequent long-term social dislocation that Sheffield experienced during this period. In fact, Leeds was the only metropolitan area outside of London to experience growth in per capita income during the 1980s. The development of the services sector, and in particular the city's success in exploiting the strategy to grow the "office function" (Yorkshire and Humberside Economic Planning Council, 1975) enabled Leeds to maintain employment and economic growth. It was during this period that Leeds' long-established financial and business services sector began to take off (the accounting sector grew 91% and the legal sector by 108% between 1981 and 1991 [Dutton, 2003]), a process that would accelerate throughout the 1990s.

Thus by the beginning of the 1990s economic outcomes in the two cities had diverged considerably. Since that time, however, both cities have undergone change in economic structures and, as we discuss in this case study, in their patterns of governance. Perhaps because of the predicament it found itself in, Sheffield was forced to change most. A concerted effort by the public and private sectors, supported by access to substantial European (Structural Funds)[14] and national (Single Regeneration Budget) funding resulted in significant upgrading of the city's public infrastructure and supported the development of major economic and social regeneration initiatives. The city has developed a much wider base of economic activity, particularly in the services sector. At the same time, manufacturing remains a critical contributor to the economy of the city region. Despite declining from 18% to 12% of employment in South Yorkshire between 2000 and 2006, the manufacturing sector in the subregion grew its GVA at rate 70% above the national average and increased productivity by 38% over this period (Sheffield City Council, 2007).

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[14] The South Yorkshire region has had £750m investment programme from '00-'06 as part of having Objective 1 status (Department for Communities and Local Government, 2006)

Leeds largely maintained its trajectory during the 1990s, neither suffering from the scale of economic crisis faced elsewhere nor benefitting from the financial resources made available to lagging city-regions. It managed to continue diversifying its manufacturing base whilst consolidating its position as a regional services centre and as an important node in the national financial and legal services market. Employment in the financial services sector grew by more than 40% during the 1990s, the fastest amongst all UK cities (Phillips, Stillwell, and Burrage, 2004). Leeds was the only one of the eight British "core cities" outside London to experience growing population between 1991 and 2001 (Unsworth and Stillwell, 2004). By the end of the decade, Leeds was the country's largest financial services centre outside of London, its largest legal centre outside of London, a major cultural centre, and it employed the largest IT workforce outside of the capital (Thornton, 2002). But it was also still Britain's third largest manufacturing centre, with significant employment in the engineering, printing, packaging, and food sectors.

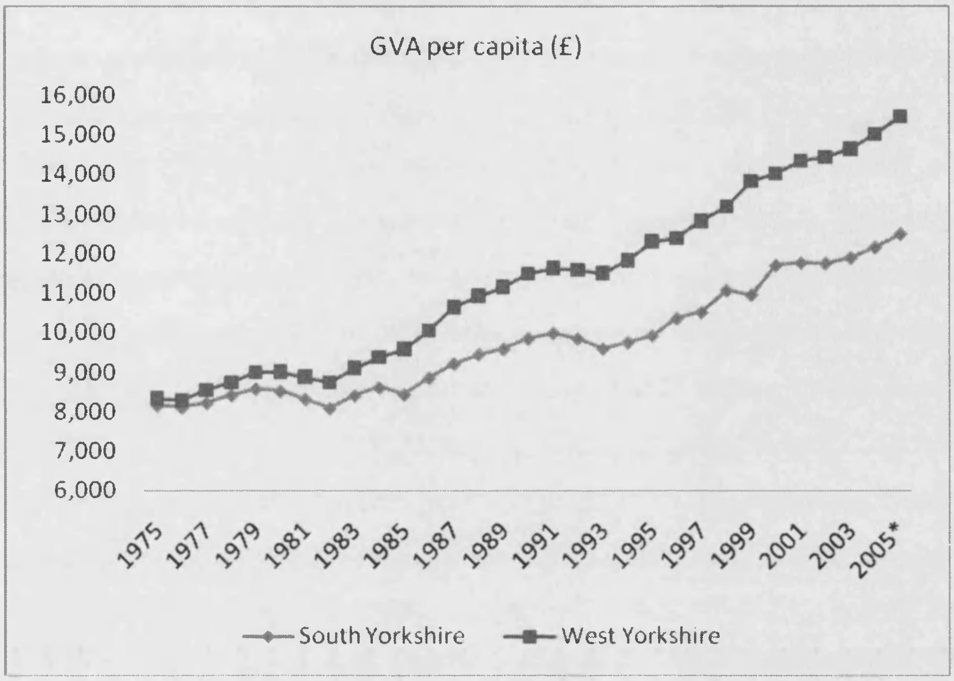
5.3.2. *Economic outcomes*

The economies of Sheffield and Leeds have diverged sharply over the last three decades. Figures 5.1 and 5.2 trace the GVA per capita of the subregional economies[15] encompassing the two cities over the period 1975 to 2005[16].

Figure 5.1 shows a limited output gap – of only 2% – in favour of West Yorkshire (Leeds) over South Yorkshire (Sheffield) at the beginning of the 1970s growing substantially throughout the mid 1990s to reach 24% by 1995. Figure 5.2 shows the average annual growth rates over this period. It is clear that between 1975 and 1995, West Yorkshire tended to experience higher growth peaks and less severe growth declines than South Yorkshire. In the decade from 1995-2005, South Yorkshire's average growth rate more than doubled. However, whilst the gap with West Yorkshire narrowed somewhat in the second half of the 1990s it has since returned to the 24% level.

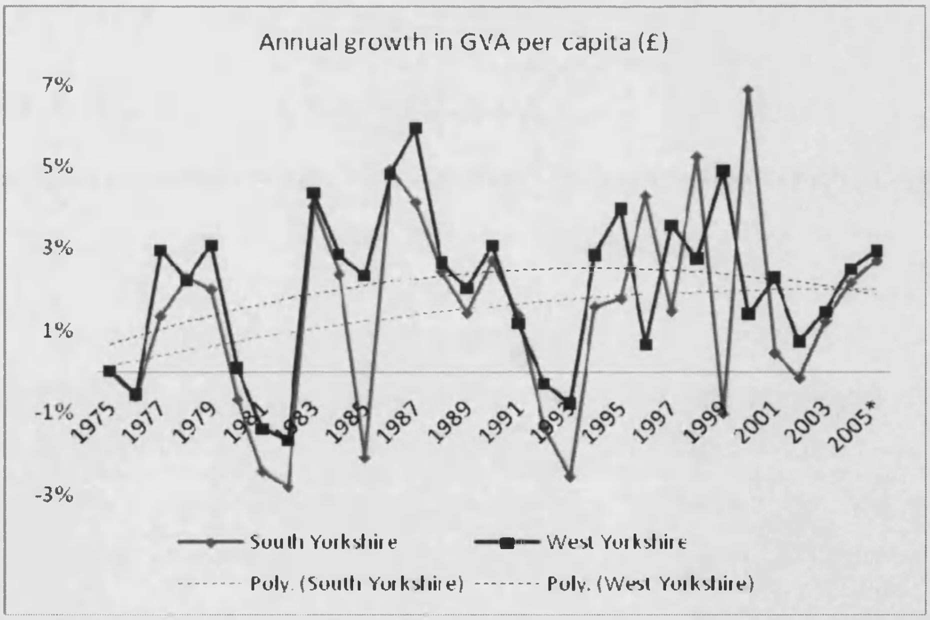
[15] Note that long time series data on GVA is only available at the subregional level. Sheffield and Leeds both represent approximately 35-40% of the populations of their respective subregions, South Yorkshire and West Yorkshire.
[16] Evidence suggests that growth in the city of Leeds was actually far above the rate for the subregion overall (Unsworth and Stillwell, 2004)

Figure 5.1



Source: Cambridge Econometrics; note that 2005 data is forecast

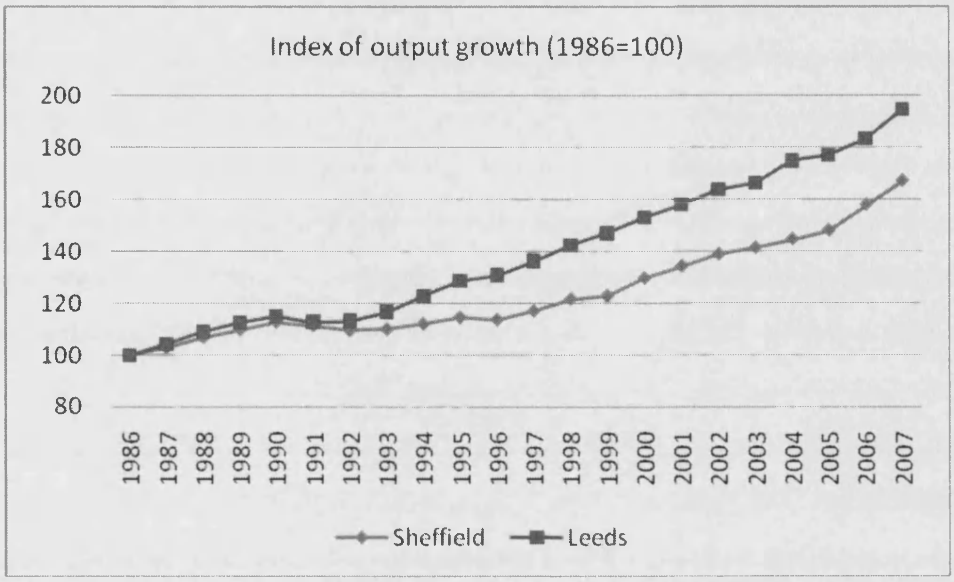
Figure 5.2



Source: Cambridge Econometrics; note that 2005 data is forecast

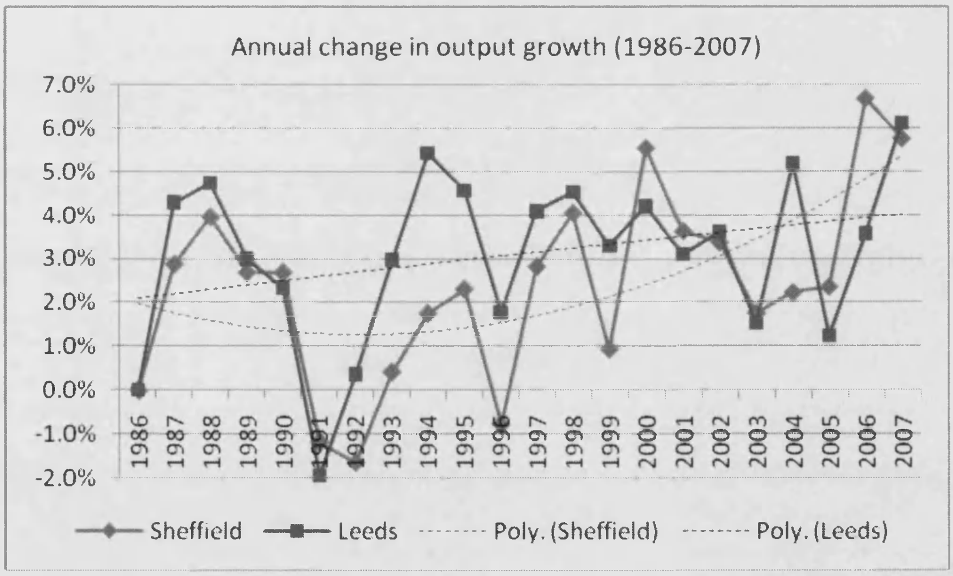
Specific data on Sheffield and Leeds are only available from 1986. Figure 5.3 shows an index of output growth in the two cities in the 20 years from 1986-2007, indicating a clear divergence over this period. Figure 5.4 again indicates that Leeds has experienced more rapid and consistent patterns of annual growth throughout this period.

Figure 5.3



Source: Yorkshire Forward, Experian Business Strategies Ltd, Office for National Statistics, Regional Econometric Model (Autumn, 2008)

Figure 5.4



Source: Yorkshire Forward, Experian Business Strategies Ltd, Office for National Statistics, Regional Econometric Model (Autumn, 2008)

The continued divergence in growth paths in more recent years raises the question over the degree to which Sheffield's recovery has resulted from sustainable productivity improvements or a combination of public spending and the utilisation of excess capacity. It also suggests that whilst Sheffield has certainly turned its fortunes around, it may have shifted to a lower-road growth path, with limited potential for convergence with a dynamic regional city like Leeds.

Indeed, the diverging economic outcomes in Sheffield and Leeds are apparent across most measures of economic and socioeconomic outcome, as can be seen in Table 5.1.

Table 5.1

		Sheffield			Leeds			Ratio: Leeds / Sheffield		
	Time period→	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial**	**Mid**	**End**
Output and productivity	GVA per capita (£)[17] (1975; 1990; 2005)	8,164	9,846	12,473	8,330	11,492	15,462	**1.02**	**1.17**	**1.24**
Output and productivity	Output (£m) (1986; 2007)[18]	N/A	5,305	8,868	N/A	7,917	15,424	**N/A**	**1.49**	**1.74**
Output and productivity	Output per FTE employed (£000) (1986; 2007)	N/A	24.9	36.6	N/A	26.5	40.7	**N/A**	**1.06**	**1.11**
Employment	Employment (1971; 1991; 2007)[19]	254,650	215,670	245,600	328,460	307,100	381,400	**1.29**	**1.42**	**1.55**
Employment	Economic activity rate (%) (1971; 1991; 2007)	61.1	71.3	73.7	62.0	72.5	79.5	**1.01**	**1.02**	**1.08**
Employment	Unemployment (%) (1971; 1991; 2007)	3.4	13.1	6.9	4.1	10.0	5.6	**1.21**	**0.76**	**0.81**
Employment Composition	Manufacturing jobs (1971; 1991; 2007)	117,100	41,840	30,100	128,230	58,160	38,500	**1.10**	**1.39**	**1.28**
Employment Composition	Services jobs (1971; 1991; 2007)	99,190	130,870	204,900	146,450	191,990	344,500	**1.48**	**1.47**	**1.68**
Employment Composition	Banking and insurance jobs (FTE) (1986; 2007)	N/A	7,400	11,300	N/A	12,900	28,300	**N/A**	**1.74**	**2.50**

[17] Data available for the subregion only: South Yorkshire (Sheffield) and West Yorkshire (Leeds); Source: Cambridge Econometrics

[18] Source for all data listed as years "1986; 2007": Yorkshire Forward, Experian Business Strategies Ltd, Office for National Statistics, Regional Econometric Model (Autumn, 2008)

[19] Source for all data listed as years "1971; 1991; 2007": Office of National Statistics; 1971 and 1991 data from Census; 2007 data as of March 2007 sourced from: https://www.nomisweb.co.uk/Default.asp

		Sheffield			Leeds			Ratio: Leeds / Sheffield		
	Time period→	Initial (1970s)	Mid (1985-1990)	End (2000-2007)	Initial (1970s)	Mid (1985-1990)	End (2000-2007)	Initial	Mid	End
Earnings and distribution	Median gross weekly pay – male, full time workers[20] (£) (2007)	N/A	N/A	421.6	N/A	N/A	433.1	**N/A**	**N/A**	**1.03**
	Gross disposable income per capita (£) (2005)[21]	N/A	N/A	12,296	N/A	N/A	12,618	**N/A**	**N/A**	**1.03**
	Indices of deprivation[22] – rank of avg score (January 2007)	N/A	N/A	63	N/A	N/A	85	**N/A**	**N/A**	**1.35**

Sheffield has experienced a dramatic turnaround in its fortunes between 1995 and 2005, adding 73,000 jobs and growing employment at a rate 50% above that of Britain as a whole (Centre for Cities, 2007). However, this growth is from a severely reduced base level as a result of previous economic decline. In 2006, Sheffield still ranked amongst the lowest of all British cities in its economic activity rate (at 73.7%), whilst Leeds had one of the highest rates in the country (at 79.5%). Even between 1991 and 2003, Leeds increased employment by 22.9% overall (despite 19.6% decline in manufacturing jobs) whilst Sheffield only increased employment by 11.2% (despite a smaller decline in manufacturing job loss) (Centre for Cities, 2007). And Table 5.1 shows that productivity in Leeds is not only substantially higher than in Sheffield (estimated at over 11% higher in 2007), but it has grown almost two times faster over the past twenty years.

The impact of lower employment and economic participation on socioeconomic outcomes in Sheffield is apparent. Sheffield not only trails Leeds on measures of productivity, output, and employment, but also on measures related to social well being and health, with higher levels of mortality and greater deprivation. Yet the gap in average earnings between the two cities is

[20] Source: Office of National Statistics- https://www.nomisweb.co.uk/Default.asp
[21] Source Yorkshire Futures: Progress in the Region-Live - http://www.yorkshirefutures.com/cb.aspx?page=C1E436A2-88D9-48BF-B812-5BE18A574A41
[22] Ibid; Lower rank indicates greater deprivation

perhaps lower (at less than 3%) that might be expected given their diverging economic fortunes in recent decades, and Leeds own earning levels still trail well below the national average. Hiding behind this average may be an increasing disparity in earnings and economic well being within the Leeds economy, with high-skilled office workers in the financial and other business services sectors experiencing significant growth in earnings whilst wages stagnate in lower-end service functions.

Finally, in terms of economic adjustment, it should be noted that despite significant restructuring, the Sheffield economy remains relatively undiversified. As of 2007, 12.9% of employment in the city was in the manufacturing sector versus only 9.9% in Leeds. And the manufacturing sector itself remains highly specialised (at almost twice the national average), ranking it 48th of 56 cities in terms of manufacturing diversity (Department for Communities and Local Government, 2006). Perhaps more importantly, Sheffield's services sector, in particular banking and financial services, has grown well below the levels achieved in Leeds over the past two decades, despite starting from a lower base, as can be seen in Table 5.1.

5.3.3. Explanations for the divergence

Several factors have contributed to the divergent growth paths in Sheffield and Leeds over recent decades. Almost all interviewees in Leeds pointed to its fortunate geographical position and connectivity, including the M1 motorway which runs straight into the centre of the city, access to international airports, and a high speed rail line offering two-hour direct connections to London, as critical to its economic competitiveness. Sheffield meanwhile has historically been geographically isolated, positioned amongst a series of hills and penned in by the Peak District National Park. Its position off the mainline rail link to London and its distance from international airports has been identified as a significant constraint to development. It has also been argued that Leeds' geographical advantages have been reinforced by recent trends of national decentralisation combined with regional concentration. Specifically, the relocation of back-office activities from London, particularly in the financial services sector, has greatly benefited the Leeds economy. The biggest single example of this is the decision by the Departments of Health and Social Security to relocate some more than 2,000 workers (1/3 of their total staff) out of London and into Quarry House in Leeds (Dutton, 2003), although Leeds also gained substantial private sector investment from companies like First Direct, BT, Direct

Line, and Dixons. Leeds also benefited from a countervailing trend of within-region concentration, particularly after the recession of the early 1990s when service firms decided to retrench from secondary cities (e.g. Bradford) and concentrate activities in regional centres (personal interview, K. Grady, 29 July 2008; P. Crabtree, 11 September 2008). But whilst Leeds undoubtedly benefited from these developments, it was no passive actor relying solely on its location and connectivity. Several authors (c.f. Bateman, 1986; Haughton and Williams, 1996) have pointed out that until relatively recently Leeds did not stand out as the clear regional centre in West Yorkshire; it had to carve out that role under stiff competition from the likes of Bradford, Wakefield, and York. Moreover, there is no inherent reason why Sheffield should not have benefited substantially from some of these same trends, despite its arguably less conducive geographical position. Sheffield too was the beneficiary of a massive government decentralisation from London, particularly in the Department for Education and Skills and the Department for Works and Pension[23], which predated the Quarry House development in Leeds. Second, as the main urban centre in South Yorkshire, Sheffield also stood to benefit from concentration in regional service centres. Yet it appears to have failed to take advantage of these trends to anywhere near the same degree as Leeds.

Finally, there is the predominant argument pointing to patterns of sectoral specialisation. Sheffield's private sector economy was until very recently almost wholly reliant on metals manufacturing, specifically steel and cutlery. Certainly the structure of the steel industry contributed significantly to the sudden, large-scale nature of the downturn in Sheffield, as the sector was characterised by massive, labour-intensive plants which shed labour by the thousands when they closed or downsized. Leeds, by contrast, had one of the most diverse regional economies in the country, across sectors and within manufacturing. It was also functionally diverse, with a substantial share of its employment in high value-added activities. This in effect meant that the Leeds economy had for a long time demanded a wide mix of skills and capabilities for functioning in knowledge intensive activities. Thus, when the manufacturing downturn came, Leeds' entrepreneurs and its factors of production were in a much stronger position to adapt to the changing bases of competition.

[23] The DWP relocated the Manpower Services Commission to Sheffield at the end of the 1970s

If Sheffield was perhaps surprised by the scale of the downturn, it certainly should not have been wholly blindsided to the inevitability of large scale restructuring. The writing had been on the wall for many years, but neither the private sector nor local government made any significant, sustained effort to diversify the economy. Leeds by contrast responded in a much more dynamic and balanced way, adjusting its specialisation both outside and within the manufacturing sector. In fact, in comparison to Sheffield, Leeds today not only has a significantly higher share of workers in knowledge intensive and high technology service sectors, but it also has a higher share of its employment in high technology manufacturing sectors (ODPM, 2004). As Thomas and Shutt (1996, p.86) noted about Leeds: "Rather than any particular geographical advantage it has been entrepreneurial expertise and adaptability in a mutually supportive business culture which seems to explain the relative buoyancy of the city."

But whilst specialisation may be the main proximate cause of the divergent development paths of Leeds and Sheffield, it fails to offer a satisfactory explanation of why this was the case in the first place. It has been argued that the demand for huge volumes of manufacturing labour in Sheffield over many years (even generations) crowded out the development of the services sector (Crouch and Hill, 2004) and dampened entrepreneurialism, contributing to the path-dependent nature of the regional economy. Yet if path dependence is an explanation, one can hardly accept it without also accepting the complicity of Sheffield's institutional arrangements – formal and informal, community and society – in nurturing this path dependence. Institutions may not be the main factors but they are likely to have played a role in structuring other factors like specialisation. Indeed, there is likely to be substantial reflexivity between the institutional arrangements and the pathways of specialisation or diversity in both cities.

We contend there are deep social, cultural, and political determinants that have played an important role in producing the pathways of specialisation and diversity in Leeds as well as Sheffield, forces which were then reinforced and reproduced by the resulting economic structures. In this *dynamic co-evolution*, we argue that community identity and the nature and structure of local networks in combination with local governance institutions established an environment in Sheffield that reinforced the status quo and created disincentives for change, whilst in Leeds these forces promoted ongoing processes of adaptation.

5.4 UNDERSTANDING COMMUNITY AND SOCIETY IN SHEFFIELD AND LEEDS

In this section we assess the structure of community and society in Sheffield and Leeds, the underlying cultural and social factors that shape them, and their function in daily economic and political life. Table 5.2 provides a summary characterisation of community and society in the two cities, covering the beginning of the period under review (early 1970s) as well as the changes that have taken place by the end of the period (mid 2000s).

Table 5.2

		Community	Society
Sheffield	At beginning of period	• Strong, traditional bonding networks based around local, industrial, and class identity • Conservative governance of networks • Localised networks with limited bridging • Informal, localised activism but limited collective action and participation at city level • Strong, paternalistic leadership in vertical (non-clientalistic) relationships	• Dominance of the state (City Council) in developing and implementing economic and social policy • Limited checks and balances (low levels of political competition)
	Changes by end of period	• Increasingly organised, activist community groups • Increasing bridging with networks outside the city • Continued paternalistic governance	• 'Thickening' institutions (wider variety of institutions at different tiers and greater political competition) • Transparent institutions to bridge community groups and provide voice
Leeds	At beginning of period	• Fluid, overlapping networks • Diversity of networks brought together for instrumental ends	• Importance of middle-class institutions • *Laissez-faire* state (City Council) • Political competition and tradition of compromise
	Changes by end of period	• Further entrenchment of bridging over bonding networks	• Increasingly decentralised governance • Increasingly corporatised / privatised governance

In this section we show that whilst Sheffield appears to have a strong and cohesive community, it has been an inward-looking and conservative one, composed mainly of narrow networks of stable relations. In addition, Sheffield's tradition of paternalism has shaped the structure and culture of its institutions of community and society. These have combined to forge a culture of complacency and to restrict the capacity for self-mobilisation amongst interests in the city, curbing the potential for collective action. This has allowed the state to dominate institutions, with implications for processes of economic growth and distribution as well as for the evolution of these institutions themselves. In the past decade, however, more modern and dynamic forms of community associationalism have been on the rise in Sheffield. At the same time there has been a significant strengthening and deepening of societal institutions. This has contributed to improving the balance of community and society. Paternalism still appears to be entrenched in the culture, however, and strong leadership remains critical to both engender and maintain local networks.

In Leeds we find a community with much weaker local identity, but a strong body of overlapping formal and informal networks, along with a tradition of civic activism. These networks operate in the context of a relatively *laissez-faire* state, and a pragmatic and consensual political environment. As a result, societal institutions in Leeds tend to be organised around basic, transparent frameworks rather than through any prescriptive structure. This appears to have been effective in facilitating adaptability over the long run within a capitalist development framework.

5.4.1. Sheffield

Sheffield has a strong and distinct culture. For its citizens of Sheffield, the city tends to be a central feature in defining their identity. Interviewees were quick to point out their long-term associations with the city, with characteristic comments such as "cut me in half and I'm Sheffield all the way through" (personal interview, R. Field, 5 August 2008). The concept of 'civic pride' came up over and over again during the interview programme in Sheffield, particularly in describing the atmosphere in the city during the period of economic decline and again during the recent recovery. This 'Sheffield identity' has played an important role in shaping solidarity within the city. In a very different way to Leeds, interviewees in Sheffield regarded the city not simply as a place where they lived and worked, but as an important component in its own right of their well-being, happiness, and sense of self-worth. Residents feel a shared destiny with the city, and as a result with each other. Whilst this identification with the city may reflect a strong, cohesive community, and it may also be symptomatic of a culture of exclusivity. Sheffield is described as an "enclave community" (Thrift, 1987) and as a "city apart" (Taylor, Evans, and Fraser, 1996).

Another factor which has traditionally been a source of solidarity in Sheffield is class. Contrary to the experiences in many industrial cities, class appears not to have become a basis for competing communities in Sheffield. Instead, the petite bourgeoisie artisans in the cutlery sector and even the capitalist bosses of the steel sector historically chose to assume many aspects of a working class identity. Thus, whilst residents of Sheffield may in reality have few shared interests, the concepts of city and class have created powerful bonds and a sense of collective interest which go beyond that of neighbourhood or ethnically-based communities.

This working class culture is behind the male-oriented nature of Sheffield's communities, with important institutions both formal (the factory floor, the trade unions, the Cutlers) and informal (the social hall, the football grounds, the pub), almost exclusively male domains. Local power structures, too, were dominated by males. Taylor, Evans, and Francis (1996, p. 266) note even into the 1990s a "quite astonishing absence of women in any positions of power and influence either in public institutions or the private sector". Jan Wilson, Labour leader of the City Council throughout most of the decade preceding 2008, recalled being invited – as a senior politician – to the banquets at the Cutlers' Company, only to be seated "with the mistresses" (as the women guests of Cutlers members were referred to) due to the traditions which required members of the male-only club to dine separately from the women (personal interview, 26 August 2008). But behind the issue of masculinity lies perhaps a defining feature of Sheffield's culture which has strongly shaped the city's institutions: paternalism. This refers to a tendency of leaders – of a family, a workplace, a community – to take on a strong, overseeing role, as one who 'knows what is best' for those under his charge. Perhaps most importantly, paternalism comes with the tendency for those not in a position of leadership to defer to their leaders and accept their actions, often without questioning. In Sheffield, paternalism derives from a tradition of large plants and factory communities, and can be seen in the historical importance of trade unions and in the traditional politics of municipal socialism.

Finally, community solidarity has been reinforced by low levels of physical and social mobility. Relative to other cities of its size, Sheffield has had a remarkably stable population with low levels of inflow and outflow. Mobility *within* Sheffield is also low, with a "settled, working class" (Bennett, 1997) and an elite that have tended to remain within specific neighbourhoods for generations. As of the 2001 Census, more than 26% of Sheffield residents continued to live in accomodation rented from the City Council, a rate more than twice the national average (Office of National Statistics, 2008). This residential stability has meant that neighbourhoods have become an important secondary source of identity within the 'family' of Sheffield. Finally, social mobility in Sheffield was typically restricted, due to a long tradition of sons following in their fathers footsteps into jobs in the heavy metals sectors. It has also been reinforced by residential segregation (with civil service, university, and white collar workers in the wealthy Hallam and the Southwest of Sheffield, and the remainder in deprived neighbourhoods throughout the rest of the city).

The strongly entrenched working class culture, paternalism, and low levels of mobility combined to form what Thrift (1987, p. 32), in his description of 19th century Sheffield, calls as a unique and highly conservative culture in Sheffield: "Workshop-pub-chapel-house: these were the foci of what was almost an enclave mentality and what was certainly a very resistant culture, *a culture that controlled itself*". Hey (1998, p. 259-60) notes how this culture contributed to complacency and a downward levelling of norms in the city: "For much of its long history, Sheffield has been an inward-looking community... The continuity of so many families over the generations is remarkable for such a large city. This insularity gives the places real strengths at times, but it can also lead to sentimentality and to an acceptance of second best".

This localism is illustrated by Sheffield's traditional business community. Lawless (1994, p. 1319) observes the stability and limited scope of business community networks: "Less than 20, white male, middle-aged people, at Chief Executive or equivalent level... The same people tend to be on the decision-making boards of the SDC[24], the TEC[25], and institutions of higher and further education". Similarly Dabinett and Ramsden (1999) note the large overlap of the individuals on boards of SDC, TEC, Sheffield Partnerships Ltd., Universaide Ltd, Sheffield Science and Technology Park, Sheffield 2000, SERC (Sheffield Economic Recovery Committee), and SCLG (Sheffield City Liaison Group). The tight social bonds amongst the city's elite reinforce this: "The same people (usually involved in Cutler's) are on all the partnership committees, their kids all go to the same schools..." (personal interview, E. Highfield, 8 August 2008).

[24] Sheffield Development Corporation
[25] Training and Education Council

The two most important formal organisations representing the business community in the city are the Chamber of Commerce and the Cutlers Company. The Chamber of Commerce, established in 1852, served almost exclusively to support their members and engaged little at the city level well into the 1980s. The Chamber offers a rather incomplete representation of the business community, with its membership base consisting mainly of medium and large 'Sheffield-based' businesses. Small businesses, which represent about 80% of firms in the city, tend to not be members of the Chamber. Although they are represented by other organisations (most notably the Federation of Small Businesses) none has been effective in organising their interests at the local level. The other notable gap in representation is of large, non-local firms; this was particularly important during the 1970s and 1980s when most of the largest employers in the steel sector were becoming increasingly decoupled from the local environment. The other main organisation representing the business community is the Cutlers Company, a guild established in Hallamshire in 1624. It plays a dual role of promoting Sheffield's manufacturing sector – principally metals-related industries – and facilitating networks for its members. Virtually all of the business elite associated with the traditional manufacturing sectors are amongst its 400 or so strong 'freemen' (members). Occupying the prominent Cutlers' Hall in the centre of the city, the Cutlers have long been seen as a major power broker in the city. However, with the recent changes in Sheffield's economy it is unclear how powerful a force they remain. Some argue that whilst the individual members are important "opinion formers" in the city, as a group they have little power (personal interview, E. Highfield, 8 August 2008; J. Wilson, 26 August, 2008). For the most part both the Chamber of Commerce and especially the Cutlers' Company historically operated more as social clubs that as networks with instrumental aims. Few formal business collaborations emerged from the networks developed in either of these organisations.

Outside of the business community and the trade unions there were, until recently, few organisations representing group interests in the city. Strong, informal community groups have always played an important social support role, for example during the mining strikes. However, such networks offered little chance of opening up economic opportunities for their members, mainly because they were reliant on in-group relations, with few links outside their established communities. Despite the strong community solidarity, interviewees working in the community sector indicated there was little in the way of widespread social capital in the city during the 1970s and 1980s (personal interview, N. Warren, 6 August 2008; P. Grice, 27 August 2008). The voluntary, community, and faith (VCF) sector was weak throughout this period. Where community organisations were formalised in the 1970s – mainly residents associations – it was largely at the initiative of the City Council, which quickly co-opted them. Professionals working in the sector describe findings themselves "squeezed" between the City Council and central government, as the Council used grant aid as a means to recruit the sector as an ally in its political battles with national government and the private sector (personal interview, N. Warren, 6 August 2008).

In this environment of inward-looking community and a paternalistic culture, the state operated with an almost unchecked mandate on behalf of its electorate. This allowed the City Council to effectively capture local societal institutions; or, as described by Raco (1998, p. 981) "...local institutional thickness was centred on the Sheffield City Council and its bilateral relations with other institutions, such as the Chamber of Commerce, local trade unions, and the major (manufacturing) employers". As the largest employer in the city, the Council virtually controlled the city's labour market following the collapse of the manufacturing sector through direct employment, the Sheffield Centre Against Unemployment (a joint venture it set up with the TUC which supported trade union campaigns in the workplace), and the Department for Employment and Economic Development (DEED). With ownership of nearly half of the city's housing stock in 1981, the Council dominated the residential property market; it also owned large swathes of industrial land and had a stranglehold on the planning process, effectively giving it domain over the property market, and therefore development. The Council also had virtually unchecked power over economic and social policy, planning, and service delivery, at least until local government reforms and rate capping in the mid 1980s. Through much of the 1970s and 1980s, the only interest groups with any significant voice and influence on the City Council were the local trade unions. Most Labour party members on the Council and senior civil servants were "card carrying members" of the trade unions (personal interview, G. Dabinett, 26 August 2008). Indeed it might be argued that it was the unions which captured the Labour party, which in turn captured the institutions of society.

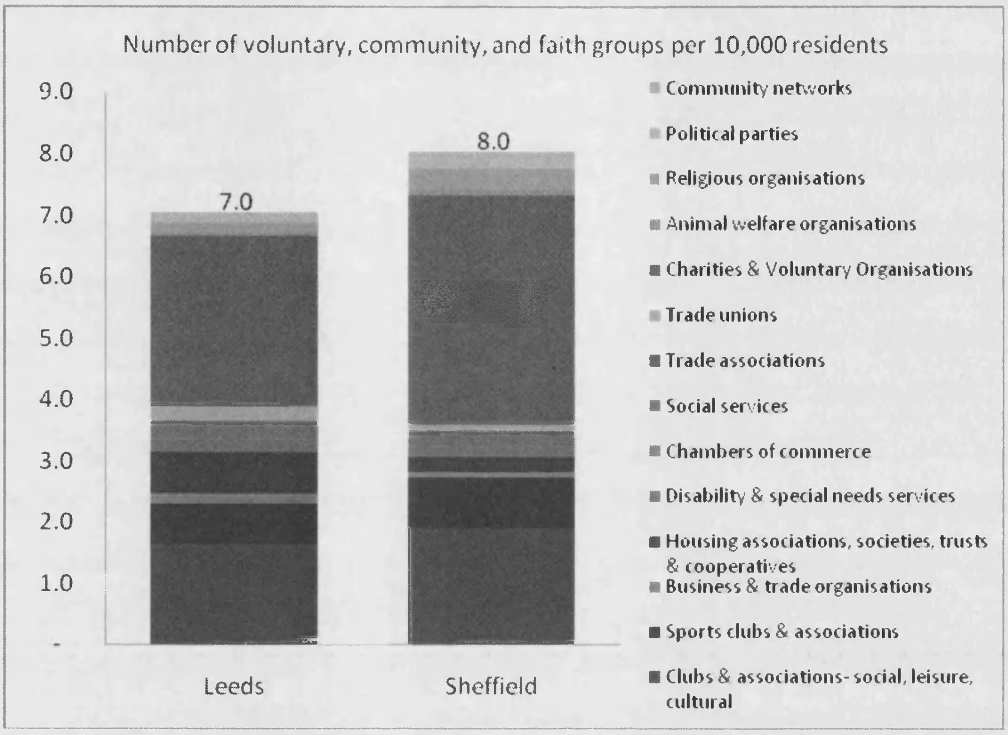
The electoral process failed to introduce sufficient competition to check the power of the Council. The Sheffield City Council was run by the Labour Party for all but two years between 1926 and 1999. With a pliant electorate, weak opposition, and ineffective collective action on the part of communities, the City Council until recently operated with few constraints, and virtually no incentives for compromise. Within the Council itself, there has been a tradition of strong individual leadership with few effective constraints on the executive. Power has at times been concentrated in the elected leader of the Council, as was the case during the leadership of David Blunkett from 1980 to 1987. At other times it has been through the Chief Executive, most prominently in recent years with Sir Bob Kerslake, who held the position from 1997 until 2008.

Over the last 15-20 years, however, the structure of community and society in Sheffield has undergone a considerable transformation. The large scale decline of the industrial fabric in Sheffield has severely weakened, though certainly not destroyed, the solidarity that lies at the heart of traditional Sheffield community. In its stead, the city has developed more formal and inclusive networks of relations and functional institutions. The modernisation of community and society in Sheffield has been both the product of and an important contributor to the process of partnership working that developed in the city beginning in the late 1980s. Recognising that refusal to work in partnership would starve the city of desperately-needed regeneration resources, The Sheffield Economic Regeneration Committee (SERC) was established in 1985 by the post-Blunkett leadership in the City Council (led by Clive Betts), in partnership with a new generation of business leaders from outside the traditional metals sectors, including Bev Stokes (Bassett Foods), Richard Field (Dyson's Refractories), Norman Adsetts (Sheffield Insulations) and John Hambridge (CEO of the Chamber of Commerce) (Strange, 1996). This was followed by the Sheffield City Liaison Group (SCLG), in 1992, which operated as an independent agency and represented a wider array of interests including the private sector, development agencies, higher education and the health services (Booth, 2005).

Forces external to the city, particularly from the EU and the central government, were crucial to catalysing the modernisation of Sheffield's institutional environment. The imposition of development-related 'quangos' by central government, specifically the Urban Development Corporation (the SDC in Sheffield's case) and the Training and Enterprise Council (TEC), were important in several ways. Critically, they both put control of large development budgets in the hands of organisations operating outside the circles of the political and business elites that historically controlled the city. They stimulated partnership working by presenting enough of a threat to the city's tradition of localism that the City Council and the business community were willing to set aside their differences and unite against a perceived common threat. A former council worker recalled how the SDC "...forced people (public and private) to realise that if they didn't work together they would get things imposed on them from the outside" (personal interview, A. Topley, 5 August 2008). Despite what many see as a continued sentiment of distrust between the business community and the Council, partnership working has become entrenched.

Whilst the quangos operated largely without participation by local community groups (Dabinett and Ramsden, 1999), EU Structural Funds and the UK's Single Regeneration Budget (SRB) were transformative in developing Sheffield's community groups and the wider institutional setting for partnerships. Access to funding through these mechanisms came with certain institutional strings attached. This led, for example, to the creation of specific fora bringing together various interest groups in partnership, the most important of which (but by no means only) is the Sheffield First Partnership. Second, these mechanisms have provided specific budgets for developing the capacity of partnership fora and, perhaps most importantly, of groups in the VCF sector. As a result, the sector grew rapidly through the 1990s, including area based strategic partnerships – e.g. Manor and Castle and the Netherthorpe and Upperthorpe Community Alliance (now known as ZEST) – as well as individual voluntary, community, and faith groups of which there are now several thousand in the city. As can be seen in Figure 5.5, Sheffield now has considerably more community organisations per capita than Leeds, which has had no access to central government or EU funding sources to develop and sustain the sector. This is particularly driven by higher levels of "charity and voluntary organisations", where Sheffield has more than 33% more organisations per capita than in Leeds.

Figure 5.5:



Source: Thompsons Local (2008)

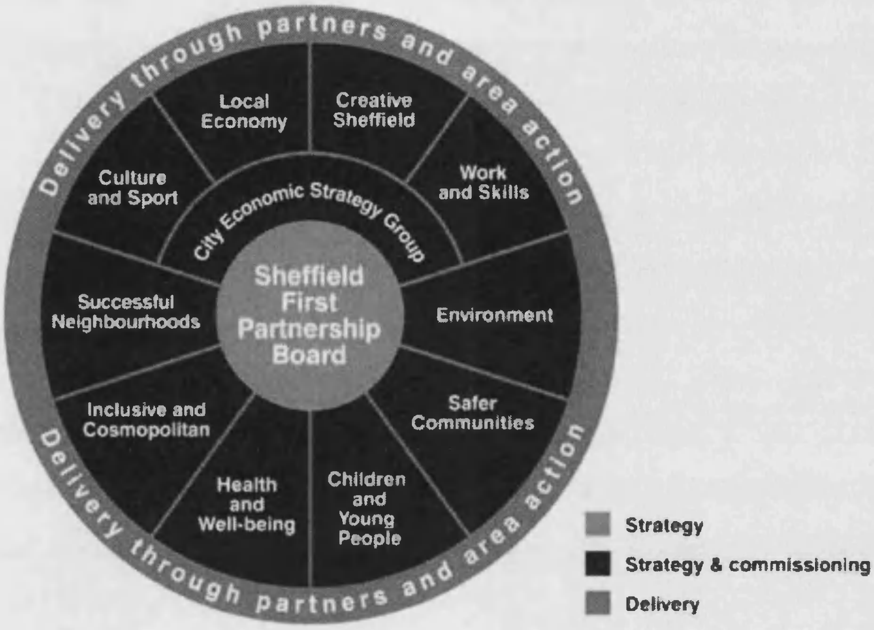
A number of successful projects involving the VCF sector (often in partnership with the City Council or the business community) have developed on a citywide level, including: Job Nets (a job brokerage service for employers and employees, run by community organisations in deprived communities of the city), Job Match (a citywide recruitment consultancy and brokerage targeted at inward investors and expanding local companies), Skills Passports (a nationally accredited package of training shaped by prominent local businesses), and local projects designed as part of the national Local Enterprise Growth Initiative (LEGI) including Work in Schools and Neighbourhood Business Champions. Where external funding has perhaps been most transformative is in building the capacity of the VCF sector to participate in city-level partnerships. Two organisations – Voluntary Action Sheffield (VAS) and OFFER – have been instrumental in this regard. VAS provides services and support to develop the capacity of individual groups in the VCF sector. OFFER, Sheffield's community empowerment network, has the responsibility for organising VCF sector representation in the Sheffield First Partnership, including training, running neighbourhood fora, and selecting and preparing individual representatives on the partnership committees. Several interviewees noted that over the past decade, the capacity of the VCF sector has improved hugely to the point where their organisation and understanding of the issues has made them "troublesome" to the traditional corporatist networks within many partnership fora (personal interview, J. Wilson, 26 August 2008; N. Hunt, 27 August 2008).

In the business community too, there are signs for the first time of associationalism beyond the traditional elite networks, particularly at the sector or cluster level. Many of these initiatives – e.g. the South Yorkshire Biosciences Enterprise Network (SYBEN) and SportsPulse – remain largely public sector driven and funded. However, one example of bottom-up mobilisation has come in the traditional manufacturing sector, where several local companies got together to form a "think tank" in 2001 largely to address concerns over the city's "worse than zero political support" for the sector (personal interview, M. Burnham, 26 August 2008). Out of this process a Speciality Metals Cluster was established, which is for the first time engaging in cluster-wide marketing, addressing skills development on a sector level, and facilitating collaboration amongst firms and the local universities.

The changes in the external environment in which city actors participate has also opened up societal institutions and made them more transparent and responsive to communities. Again, the disciplining effect of external funding has played an important role in helping to establish institutions that enable widespread voice and accountability in the economic and social development of the city. The most important of these institutions is the Sheffield First Partnership, which functions as the city's Local Strategic Partnership (LSP)[26]. Established in 2002, the partnership has a much longer history, having evolved from the SCLG and SERC. It has responsibility for coordinating all aspects of the city's economic and social development strategy. It functions through ten individual partnerships, each with their own board, consisting of representatives from across the city's public sector, business community, and VCF sector, as shown in Figure 5.6. The main board consists of 26 members and is chaired by the Leader of Sheffield City Council.

[26] LSPs were introduced by the UK government as multi-agency local partnerships which aim to bring together different parts of the public, private, community and voluntary sectors to encourage joint working and community involvement. Setting up an LSO was made mandatory in order for local authorities to access funding from the government's Neighbourhood Renewal Fund.

Figure 5.6:



Source: Sheffield First (http://www.sheffieldfirst.net/our-partnerships)

Within this structure is the City Economic Strategy Group, which includes Creative Sheffield, the city's dedicated economic development agency. Creative Sheffield is responsible for attracting inward investment, strategic marketing, improving the city's physical infrastructure and "growing the knowledge economy" (Kerslake and Wilson, 2007). In addition, the Sheffield First Partnership board divided the city into 12 Action Areas, each with its own Area Panel. These Area Panels are expected to improve the quality of Council services in the local area, and coordinate agencies to work together on local initiatives (Winkler, 2007). Whilst few participants are entirely satisfied with how the partnerships work, most recognise that it has created a dramatically new institutional environment in the city, one in which all voices have a say and where consensus and compromise is inherent in the process.

Despite the improvements in the institutional environment of Sheffield in recent years, some weaknesses remain. Individual networks continue to be relatively closed and to some degree an enclave mentality still exists. And although the business sector is quite involved in the Sheffield First Partnership, participation is limited to no more than a dozen or so of its leaders. But perhaps most important is the persistent culture of paternalism, which acts as a barrier to self mobilisation and concentrates power. The business sector and community groups still tend to look to the state (including the City Council and increasingly Yorkshire Forward, the Regional

Development Agency) to take the initiative in setting overall strategy and in launching individual initiatives. And Sheffield's institutional structures remain reliant strong individuals. Throughout the period of recovery in the 1990s, Chief Executive of the City Council Bob Kerslake was widely accepted as the single leading driver of development in Sheffield. He became in effect the most important institution in the city, more important than the Sheffield First Partnership and even the EU and SRB funding in the eyes of many. He was referred to as, amongst other things: an "unelected mayor" and a "benevolent dictator". In stark contrast to the situation in Leeds, when asked "*who runs Sheffield?*" interviewees in Sheffield were almost unanimous in responding "Bob Kerslake", always unprompted and usually without a moment's pause for thought. All interviewees praised him and almost everyone was at pains to point out that they had the pleasure of working closely with him. Many interviewees argued that strong leadership was a healthy sign for the city; that it was people and not institutions that matter: "individual leaders can single-handedly move structures forward... institutions simply self-replicate" (personal interview, D. Baker, 6 August 2008); "Where someone is dominant, everyone knows their place and their role... he has the full picture and cohesive approach... this is what is needed (a dictator)" (personal interview, P. Grice, 27 August 2008). But there was also unease with the level of control he had over the city's institutions and the degree to which the city came to rely on him. One interviewee noted that he was "...the city's greatest strength, but also its greatest weakness... He was utterly positive and appropriate for the time... but you can't run a city like that anymore" (personal interview, E. Highfield, 8 August 2008). Another noted that he was "brilliant for focus, vision and driving... but what about when, like all of us, he is wrong?" (personal interview, anonymous, 8 August 2008).

5.4.2. <u>Leeds</u>

It is a much less straightforward process to demarcate clearly the communities and institutions which have shaped Leeds' development path in recent decades. On first inspection the city appears to fit neatly into a capitalist framework of efficient markets supporting a collection of preference seeking individuals. Alternatively it could be described as a typical entrepreneurial city. However, it is clear that institutions – both at the level of community and society – play a central role in structuring economic and social interaction in the city. Leeds can be characterised as a city shaped by overlapping, instrumentalist networks, which operate within a societal environment that is pragmatic, consensual, and as a result, stable and predictable.

The same factors of geography and class, and history which shaped the unique community solidarity in Sheffield also shape the culture of community in Leeds, but to very differing effect. Geography, for example, has not isolated Leeds but, instead, exposed and connected it. The city's transport networks – the M1 and the rail link to London – have enabled residents of Leeds to link easily outside the city, and have similarly opened the city up to outsiders. This has facilitated high levels of mobility. On a macro level may have contributed to relatively high levels of immigration in the city. Immigrants have always played an important role in supporting growth in Leeds, from Irish labour in the 19th century to Jewish traders and textile workers from the Indian Subcontinent in the 20th century, and more recently to the major influx of university students. Data from the 2001 Census (Champion et al, 2007) indicate that Leeds had the highest net gains of all metropolitan areas in migration from within the UK between 1991 and 2001. This flow, at least within the UK, runs in two directions, with Leeds also being a large source of emigrants, particularly to London and the Southeast. Anecdotal evidence of the constant renewal of the residential population is evident from the interviewees participating in this research; few interviewees in Leeds had spent the majority of their lives city whilst more than half of those in Sheffield were born and raised in the city.

These high levels of mobility in Leeds have contributed to an environment that lacks the stability that supports bonding communities in Sheffield. On the other hand, it has played an important role in facilitating networks amongst individuals and groups that bridge across spatial divides. Interviewees that came from outside Leeds noted the relative ease with which they were able to "break into" business and social communities in the city, and contrasted it with places like Manchester which were seen to be much more defined by solidarity and closed to outsiders (personal interview, P. Walton, 11 August 2008).

The large physical area over which metropolitan Leeds extends is a second important geographical feature contributing to the structure of community in the city. The 1972 local government reforms made the Leeds metropolitan council the second largest in the UK (Thornton, 2002), expanding it to encompass a number of outlying towns including Otley, Wetherby, Morley, and Garforth (Dutton, 2003). This added to the sense of Leeds being a collection of villages each with their own distinct identity (Haughton and Williams, 1996).

Although this scale hinders the possibilities of establishing a cohesive 'Leeds identity', it has the benefits of bringing greater diversity to business and policy networks, contributing to the learning and innovation potential in the city. Within the city centre, by contrast, its compactness is widely seen by the business community as an important contributor to network building and deepening. As noted by one interviewee: "I can walk out anytime and run into someone I know" (personal interview, K. Grady, 29 July 2008). This is not simply of social value, but as pointed out by an executive in a large financial services firm, it has been critical to facilitating face-to-face exchange (personal interview, O'Connor, 30 July 2008). It also helps to create an environment of overlapping networks that is an important feature of community in Leeds. The City Council's Chief Economic Officer described the city as having networks of "interlocking circles, rather than cliques" (personal interview, P. Stephens, 29 July 2008). Another interviewee described "clumps of these (active and influential) people, not always the same, but with lots of overlap... "(personal interview, N. McClea, 11 August 2008).

The lack of a deep, shared identity amongst its residents may also be linked to a sense in Leeds of not being bound by history in the way that many regional cities have been. Interviewees pointed out that, in contrast to places like Huddersfield and Hull, Leeds was "not shaped by traditions of the past... other places live on past glory, Leeds always wants to move on" (personal interview, A. Chaudhry, 11 August 2008). The culture of Leeds largely eschews stability. The city is characterised by relatively small companies and a high levels of labour mobility – individuals are not expected to work in one job, company, or even industry, for life (personal interview, P. Stephens, 29 July 2008.)

Unlike Sheffield, the culture of community in Leeds has been shaped largely by the institutions of the middle class. Indeed, Leeds has been identified as the most "middle class city" in England (Woodward, 2008), and observers suggest that its culture, for good and bad, reflects this. On the one hand, Leeds is described as conservative and understated. It lacks the "edge" of Sheffield (personal interview, A. Topley, 5 August 2008) and the "brashness" of Manchester (personal interview, P. Stephens, 29 July 2008; J. Rogers, 30 July 2008). This is reflected in the city's relatively dull image, its seeming weakness in self promotion, and its low profile nationally and internationally (Haughton and Williams, 1996). But despite its modesty, the business culture of Leeds has been and remains, ambitious, forward looking, and inclined to engage beyond its city walls. Because its traditional businesses operated in the trading end of the cloth sector, they were acutely aware of the importance of international events and on business in the city (Thornton, 2002) and recognised the limited scale of opportunities available should they restrict themselves to city alone. This attitude is reflected today not only in Leeds' view of itself as the 'capital of Yorkshire', but in its aims to be a 'world city' and position itself within European networks. However, whilst this discourse is seen to be an important element in bonding the members of Leeds "growth coalition" (Thomas and Shutt, 1996), it hardly serves as a basis of citywide solidarity.

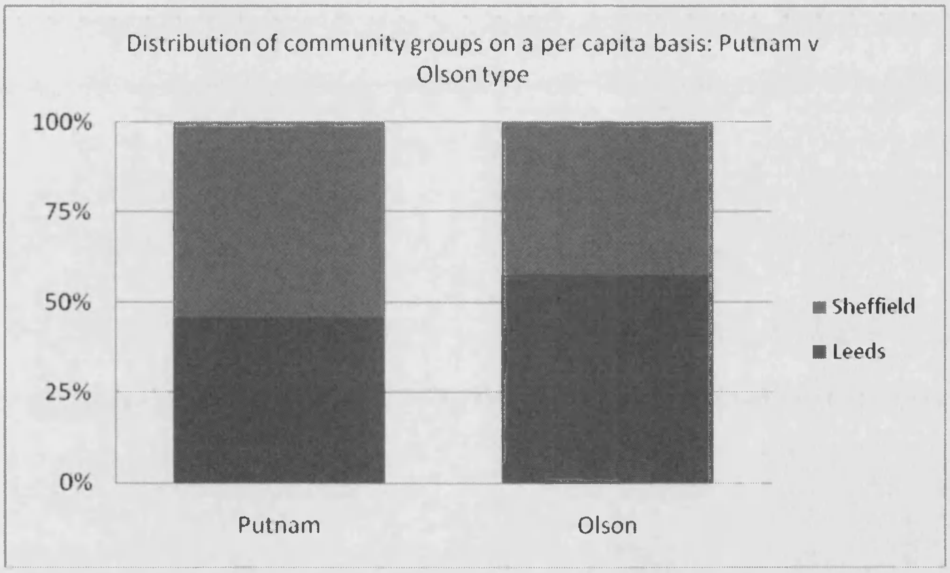
This cultural environment in Leeds may have resulted in a community with far less of a basis for bonding than has been the case in Sheffield, but it does not mean community networks have been weak. Leeds has a long history of civic activism and residents tend to be involved in a range of formal and informal associations. This stems in part from the historical participation of the Leeds middle classes in a range of voluntary associations built around important institutions like the Leeds Philosophical and Literary Society and the General Infirmary. Thrift (1987) argues that the failure of a strong working class movement to develop in Leeds in the mid 19th century was partly attributable to the widespread engagement of the middle classes in radical reform movements (e.g. Chartists) which elsewhere would have been the sole domain of the working classes.

Where Leeds differs significantly from Sheffield is in the instrumental nature of its networks. Figure 5.7 shows the distribution of community groups in Leeds and Sheffield based on the classification of these organisations as Putnam (civic groups, social groups, charities, and religious groups) or Olson (business associations, trade unions, political parties) type[27]. Leeds has nearly 40% more Olson-type groups than Sheffield on a per capita basis. It has twice as many business and trade organisations, more chambers of commerce, and even more trade unions than Sheffield; whereas Sheffield has substantially more social clubs, charities and voluntary organisations, and religious organisations. This suggests that associationalism in Leeds may have quite a different basis than it does in Sheffield. This is borne out, in part, by

[27] Putnam groups are defined to include civic and religious groups, whilst Olson groups are defined to include any groups which may have an open or vested economic or political interest (business associations, trade unions, political parties, etc.). This is based on the definitions in Beugelsdijk and van Schaik (2005), as originally specific in Knack (2003). The share of groups is standardised across both cities on a per capita basis.

evidence from buisness community participation in partnerhips. In Sheffield, there appears to be clear acceptance by the community that participation in partnership networks in Sheffield is in part an act of solidarity, a duty to support the recovery of the city. In this sense it is not particularly 'instrumental' on on an individual level. In Leeds, however, participation in activities like the West Yorkshire Employers Coalition, Leeds Ahead, and the ABDN Minority Ethnic Enterprise Network is viewed more as an act of "enlightened self interest" (personal interview, A. Handa, 11 August 2008; N. Foster, 12 August 2008; S. Burras, 12 August 2008). Individuals and groups use these networks with the aim of achieving (mainly economic) ends. Social returns are hoped for but private returns are expected. As one active business leader commented, "much of the dynamism in Leeds comes from firms and individuals 'floating their own boat'" (personal interview, N. McClea, 11 August 2008).

Figure 5.7



Source: Author's calculations derived from Thompson Local (2008)

Although many of the important city-level networks in Leeds are directed by individuals from the private sector, the business community has never been particularly effective at representing itself. This may be explained partly by the sectoral diversity of the private sector, which narrows the scope for identifying issues of common interest. Evidence suggests that the business community in Leeds has been much more effective in organising itself along specific sectoral or cluster lines (e.g. Leeds Financial Services Initiative, Leeds Legal, etc.). The main formal representative body for the business community is the Chamber of Commerce. Until recently, it tended to be dominated by manufacturing interests, and was seen by many as "exclusive and patronising" (personal interview, N. McClea, 11 August 2008), and as a typical inward-looking "old gentlemen's" club (personal interview, M. Dean, 4 July 2008). Although the Chamber had some interactions with the City Council during the 1970s and 1980s, it did not engage much at the city level until the end of the 1980s; in fact the Chamber was actually based in Bradford until well into the 1980s. Observers now feel that the business community is much more active across the city; however, questions remain about the structure, nature, and motives of its participation. Some contend that it engages in a limited, growth-orientated agenda and fails to participate constructively in the wider socioeconomic aims of the Leeds Initiative (personal interview, B. Adams, 29 July 2008). Others argue that the business community still does not do enough to lead, and its involvement is often "more in order to know what's happening rather than to make things happen" (personal interview, N. Foster, 12 August 2008). This is perhaps indicative of a community structure which is at its foundation little more than networks of individuals. Indeed, the Leeds Initiative – the city's Local Strategic Partnership – is replete with representation from Leeds major companies, and many argue that the strength of the business community in Leeds comes from these individuals and not from the Chamber of Commerce or other representative organisations. As one interviewee from the City Council commented: "Some of the bigger hitters are involved in these other forums... the Chamber of Commerce needs to better engage with them and develop a common agenda (personal interview, P. Crabtree, 11 September 2008).

The voluntary, community, and faith (VCF) sector in Leeds has always had a fairly active and well networked membership. Haughton (1996) describes "remarkable" local activism in the city including initiatives like Belle Isle (a resident-driven project around housing and community development), Ebor Gardens (a business-led CED project), and Kirkstall Valley (a community coalition opposing development in green spaces). But until recently, most of this engagement was fragmented, with little participation at the city-wide level. Jane Daguerre, founder of Leeds Voice, described the community sector in Leeds as "always very active, but traditionally not influential" (personal interview, 30 July 2008). In recent years, however, the VCF sector has played an important role in the Leeds Initiative. Six places on the board of the Initiative are reserved for the VCF sector – these are filled by Leeds Voice (the body designed to represent the sector) and five individual organisations voted in by the sector itself. In addition, at least one representative from the sector is on the board of each of the eight Strategy and

Development subgroups (Mitchell and Bush, 2004). This has given the sector significant voice in local decisionmaking. But in contrast to the situation in Sheffield, the lack of large-scale government funding for the sector has limited its scale of growth and capacity development.

Over the years, the VCF sector in Leeds has taken on much of the discourse of growth in an attempt to carve out a role for itself in a city seen to be driven by a corporatist growth agenda. For example, Leeds Voice produced a report – "The Ripple Effect" (Leeds Voice, 2007) which mapped the VCF sector and quantified its economic impact on the city. This report was seen by many as having opened people's eyes to the potential of the sector (personal interview, K. Grady, 29 July 2008; M. Dean, 4 August 2008). Perhaps tellingly, however, its prominence lay in highlighting the economic rather than the social contribution of the VCF sector.

An example of the type of VCF initiative that attracts substantial support in Leeds is *Leeds Ahead*. This is a private sector programme, incubated by one of the largest city law firms and run on a social business model. It is described by its founder as a "self help" remedy which works against the culture of "propping up..." and the "disincentives" created by government assistance (personal interview, S. Burras, 12 August 2008). Its main role is as a consultant and conduit between businesses and community groups to essentially match donors with needs, tapping into business' increasing desire to participate in community development and recognising clearly the enlightened self interest that comes with this. In fact, its initiatives are often crafted in such a way as to make the economic benefits to participating businesses as direct as possible, for example to assist them in winning government tenders.

Societal institutions and the governance environment in Leeds have differed markedly from those of Sheffield over the period covered in this case study. Whilst the City Council has had a number of powerful leaders over the years, on the whole it has been characterised by pragmatism, consensus, and a soft touch approach to intervention. Up through the 1970s and into the early 1980s, the Leeds City Council was in many ways a typical "City Fathers" style, largely Labour run, local authority (Haughton and Whitney, 1994). Not unlike Sheffield in its broad approach, the Council focused mainly on issues of housing and service delivery, with only limited interest in the economic growth agenda.

But whilst the Council had the same roots in municipal socialism as had Sheffield, in practice it operated on a very different basis. Perhaps most importantly, whilst Sheffield's Council experimented with radical activism in response to industrial restructuring, Leeds went the opposite way, moving to even greater consensus building with the business communiuty. There are a number of explanations for this that have their root in the structure of the city's societal institutions. First, Leeds' middle class communities always supported highly transparent, competitive democratic processes and shied from giving too much power to any one group. Second, party politics in Leeds has historically been linked to geographical constituencies rather than specific interest groups, which tended to work against parties taking strong interest-based positions (Cole and John, 2001). Third, although Labour led the Council for most of the period since World War II, it often did so without overall control. This provided a constraint on the exercise of Labour power and ensured that coalition and compromise was always on the agenda, thus contributing to what has been described as a long-term "politics of pragmatism" in Leeds (Haughton, 1996). Even when the Council did come under the control of one party, the governance environment was one in which the opposition tended to be engaged and involved. All-party support was achieved for major city initiatives, including the 1992 City Challenge proposal (which was ultimately unsuccessful) and the Leeds Initiative (personal interview, P. Stephens, 29 July 2008). This pragmatism extended to the Council's interactions with central government. Despite being a Labour Council, it had none of the dogmatism of places like Sheffield, and worked closely with central government throughout the Thatcher era. This consensual governance environment provided an important sense of structural stability and predictability for the private sector.

During this period, Leeds developed a reputation as 'business friendly' and growth orientated, with a relatively loose planning environment to match. Despite this, throughout the 1970s and most of the 1980s there was limited interaction between the City Council and the business community. As one former stakeholder said: "the only place where Council and business used to interact was at the annual rate-setting meeting" (personal interview, M. Dean, 4 August 2008). In the background, however, the 1980s was a decade in which Leeds moved in the direction of greater partnership. This was triggered by a number of external events including Leeds losing its status as an assisted area in 1981 (personal interview, J. Ansbro, 11 August 2008) and the 1988 establishment of the Leeds Development Corporation as a central government quango responsible for regeneration in the city. Yet above all, it came about due to ongoing economic restructuring in the city and the wider region, and a subsequent shift in the concept of the role of government, from that of provider of social services to facilitator of economic development, with growth as the primary target (Unsworth and Stillwell, 2004).

Thus began what observers have called the "corporate city" (Haughton and Williams, 1996) approach to governance in Leeds, with strong public-private partnership between government and business, pushing a pro-growth agenda. Institutionally, this "corporate city" approach includes a unique structure whereby the City Council and the two universities have seats on the board of the Chamber of Commerce. But the institutional foundation of this partnership is the Leeds Initiative, now widely recognised as an early precursor of (and some say model for) the UK's Local Strategic Partnerships. Established in 1990, it operated initially as a "loose federation"[28] involving the Chamber of Commerce, the City Council, the region's major newspaper group, the regional trades union congress, both universities, the UDC, and the TEC (Haughton and Williams, 1996b). The current Deputy Director of the Leeds Initiative described the early structure as a "city supporters club of the great and the good" (personal interview, M. Dean, 4 August 2008). It served mainly a city marketing, investment promotion, and development agenda throughout the 1990s, and was responsible for establishing several important economic development institutions in the city, including Leeds Business Link, Enterprise Leeds, and the Leeds Financial Services Initiative (LFSI). Gradually it began to broaden its agenda to include issues of social equity. Ultimately it was reformulated to become the official LSP for Leeds, and the social and community agenda element was formalised in the institutional structure. The Leeds Initiative now has Board of 36 members and over 500 groups in total affiliated with the partnership. Its operating structure includes eight "Strategy and Development Groups":

- Healthy Leeds Partnership;
- Leeds Cultural Partnership;
- Climate Change Partnership;
- Neighbourhood Policy Group;
- Leeds Integrated Transport Partnership;
- Skills and Economy Partnership; and

[28] Until it became the official LSP for the city, the Leeds Initiative operated without a constitution.

- Children Leeds Partnership

It also includes a number of sectoral "Partnership Groups", which operate in specific business and cultural sectors. Haughton and Williams (1996b) argue that the "real power" appears to lie in the second tier of thematic sub-groups – e.g. Leeds Engineering Initiative and the Gateways and Corridors Group. Here the partnership boards have substantial "organisational and constitutional flexibility", most importantly the potential to draw in additional expertise from across the city and to consult closely with local community groups (Haughton and Whitney, 1994). The institutional structure of the Leeds Initiative focused on a single partnership approach, with coalition-building encouraged within the partnership. This "sophisticated compromise" gives scope for private sector to drive things but ensures voice for most groups (personal interview, M. Dean 4 August 2008). Others argue that this structure functions effectively as a tool for co-opting communities, facilitating the corporate city model by "suffocating outside influence... (it) pulls them in and shuts them up" (personal interview, K. Grady, 29 July).

However, the idea of Leeds as a corporate city is weakened by the pervasive criticisms of the City Council as conservative, passive, and lacking in ambition. Many in the business community contend that the main success of the City Council has been down to its passiveness and the fact that it has provided a framework without being overly directive and stifling the private sector (personal interview, K. O'Connor, 30 July 2008). However, many also wish to see a more activist and growth-promoting local government. Certainly some of the conservatism in the Council, stems from a complacency borne by the lack of any real crisis affecting the Leeds economy. Linked to this is the important issue of funding. Unlike Sheffield and other cities in the region, Leeds' relative economic success precluded it from access to European and central government financing to support regeneration initiatives.

Another common argument against the Council as an effective developer has been that it lacks the personal leadership that has driven other cities like Manchester (Howard Bernstein) and Sheffield (Bob Kerslake). Others, however, argue that Leeds City Council has had to take on more of a managerial than a leadership role: "It has been very well run... it hasn't had to go out and get investment but it has had to deal with managing it all, so it hasn't had the luxury of time to think about the best mix of investment or do a lot of planning" (personal interview, N.

Foster, 12 August 2008). Council Chief Executive Paul Rogerson has been hailed by many as being a strong manager, bringing: "integrity, clarity of purpose, empowerment" (personal interview, P. Stephens, 29 July 2008) and having taken the Council "from being a basket case to being top class" (personal interview, M. Dean, 4 August 2008).

It is certainly true that Leeds has moved steadily away from a model of strong central leadership over the past twenty years. Whilst George Mudie ruled with an "iron fist" (Cole and Peter, 2001, p. 103) in the 1980s, subsequent leaders John Trickett, Brian Walker, and now the joint leadership of Andrew Carter and Richard Brett have introduced an increasingly more decentralised approach to running the council. Indeed, in stark contrast to the situation in Sheffield, most interviewees in Leeds struggled to come up with an answer to the question "who runs Leeds?". Few identified any one individual or group who was in a position to drive things in the city. As one interviewee described the city: "Leeds is a hydra-headed monster... about 200 people. Wherever you turn you find clumps of these people... not always the same, but lots of overlap... lots of churn" (personal interview, N. McClea, 11 August 2008).

The Council regards its role primarily as one of facilitation rather than leadership – it expects the business community to instigate and drive things. In reality, however, most of the important initiatives have been initiated and incubated by the Council, before being picked up by the private sector. One good example of how the state tends to catalyse collective action in Leeds is the Leeds Financial Services Initiative (LFSI). The City Council launched an abortive initiative in the sector during the late 1980s, which was resurrected from within the sector in 1993 (Tickell, 1996). It operated initially as an independent company owned jointly by the City Council and the Chamber of Commerce, with the aims of fostering cooperation between financial companies in city, promoting city as financial centre, and representing the interests of sector within the city. LFSI now has 110 members, and is self-sustaining, funded through membership fees. LFSI exemplifies the strength of networks in the Leeds business community and its implicit operating principle of "enlightened self interest". Similar initiatives have been set up in the legal sector (Leeds Legal), property development (Leeds Property Forum), media (Leeds Media) and citywide marketing (Marking Leeds), whilst an initiative for the manufacturing sector was largely unsuccessful.

5.5 THE CONSEQUENCES FOR DYNAMISM AND ADJUSTMENT

This section assesses how the structures of community and society shape economic institutions in Sheffield and Leeds, and the consequences this has had for economic dynamism and adaptability. In the case of Sheffield, conservative, inward-looking social networks and a culture of paternalism created an environment that for too long favoured entrenched interests, undermining the mobilising capacity of community and preventing actions that would have contributed to adjustment of the city's economic base. The subsequent capture of societal institutions by a radical urban left government at a time when the economy was in all-out collapse bred deep distrust between the state and business community, resulting in unproductive distributional conflicts and delays in undertaking structural reforms. But Sheffield's strong community solidarity provided a powerful force for achieving consensus when more balanced and disciplined institutions emerged during the 1990s. This has resulted in a progressive and inclusive approach to redeveloping the economy, reforming economic institutions whilst providing space for enhanced local democracy. Yet some cultural and institutional weaknesses remain which may yet limit the potential for successful long term adaptation in the city. In Leeds, the diversity of economic interests and a more entrepreneurial culture enabled the city to avoid the scale of economic decline experienced in Sheffield. Active, instrumental networks combined with a pragmatic, consensual, pro-growth institutional environment helped ensure ongoing economic expansion whilst also facilitating an adaptively efficient economy. And whilst the city's institutional environment is often described as corporatist, it appears to have been sufficiently robust to protect local communities against the excesses of an unfettered "growth machine" (Molotch, 1976), allowing for a tenuous societal bargain to be maintained. On the other hand, Leeds' reliance on networks of mutual self-interest and its passive governance may limit its capacity to mobilise quickly; and these same factors produce an environment of inequality that forms a constant threat to sustainable growth.

5.5.1. Sheffield

Community forces in Sheffield contributed in several ways to its failure to respond, for so many years, to the risks posed by its overly specialised economy. The city's conservatism and localism is partly responsible for the complacency that existed through the 1970s. With narrow social and business networks that remained by and large stable over years (even generations), most residents and firms had lived through countless business cycles and were always confident in the eventual return to growth. They were either unaware or chose to ignore the possibility of long term structural change in the metals manufacturing sector.

The deficiencies in community which inhibited individual firms from taking decisions that would have facilitated adaptation in the local economy similarly restricted the potential for collective action as a mediating response once the downturn did arrive. Formal organisations like the Chamber of Commerce and the Cutlers favoured continuity. After generations of success, they no longer had the capacity to anticipate change or respond to it. Crouch and Hill (2004, p. 181) contend that "Forms of governance associated with the business interests themselves had become either too weak to develop the collective response (as with formal associations and informal business networks) or totally ill-equipped to take on such a task (corporate hierarchies and markets)".

This cultural and institutional environment resulted in a policy response over the past thirty years that resembled more a series of revolutions than a process of adaptation. Faced with a business community that it viewed as complicit in the economic collapse facing the city, Sheffield City Council decided to use its control over local institutions to rescue the city of its own accord. Thus, from the position of complacency and passivity that extended throughout the 1970s[29], Sheffield suddenly experimented with radical interventions – in direct conflict to the policies of central government – during the first half of the 1980s. Although it was symbolic measures like flying the red flag over city hall and declaring Sheffield a 'nuclear free zone' that earned it the moniker "The Socialist Republic of South Yorkshire", the more substantive elements of the policy regime included refusing to participate in the central government's Enterprise Zones programme (and so foregoing tens of millions of pounds in regeneration funds), forming a number of industrial cooperatives, investing equity in local firms, and setting up the UK's first local government Department for Economic Development and Employment (DEED) (Lawless and Ramsden, 1990). DEED aimed to "retain and expand the city's manufacturing base by fighting factory closures and by protecting the interests of the skilled male working class" (Niemi, 2001, p. 25) – in effect to single-handedly resist the market forces that were being unleashed on the city. In its Quixotic fight, the Council problematised not only

[29] The City Council during this period focused mainly on service delivery and paid scant attention to supply side issues.

the socio-economic policies of the Tory central government but also Sheffield's business community. To fund DEED, especially in the absence of national government support, the Council imposed a 30% rise in business rates; business responded by laying off workers to offset the additional costs; to which the Council responded by creating Council-funded jobs for these workers and imposing still further rate rises to pay for it (personal interview, R. Field, 5 August 2008).

So whilst the city was undoubtedly in need of sacrifice and compromise on behalf of communities suffering from the downturn, they got instead a vicious circle of distributional conflict. The entrenched positions of the business community and the Council delayed further moves by either party which might have facilitated the long-run adaptation of the local economy. Once Labour and the trade unions had control of institutions, they adopted policies which served the short-term demands of their constituencies, thus becoming as much a barrier to change as the business community had been. One former council employee recalled that any action with which the unions disagreed resulted in dissent and threats of strike action; the final decision on the action would then go to the Council who, as union members themselves, would reject the proposed action, "making any change impossible" (personal interview, J. Hudson, 26 August 2008).

As it became clear that the city could not afford to sustain its interventions, particularly in the light of central government restrictions on the revenue raising power of local authorities, the Socialist Republic of South Yorkshire experiment was abandoned and a policy of rapprochement with the business community ensued. This partnership approach was not, however, designed to achieve compromise per se; instead it focused on the narrow agenda which the business community and the City Council shared, that of attracting investment into the city. Indeed, the partnership followed a traditional growth coalition model, with an emphasis on place marketing and property-led regeneration. As part of this, the city shifted away from its long-standing support for the manufacturing sector and instead sought relatively short-term investment opportunities, with an increasing focus on the 'post-industrial' city. This not only represented yet another significant policy shift, but it also resulted in putting some of the wider agenda of long term economic restructuring on hold.

The passivity of Sheffield communities and the culture of paternalism also played a part in this stasis. Sheffielders exhibit low levels of citizen engagement, with turnout at general elections well below the national average (Department for Communities and Local Government, 2006). Moreover, the culture of paternalism led residents of the city to, by and large, leave things up to the elite – elected and unelected – and failed to hold them to account for the policies they pursued. Despite the economic crisis and the conflictual policy environment that was undermining the recovery effort, ordinary citizens of Sheffield did not mobilise to demand solutions. In fact, voter turnout in the city actually declined in the early 1980s (Child and Paddon, 1984). In failing to demand resolution of the distributional conflicts that arose, the citizens of Sheffield allowed them to be played out through the politics of confrontation.

Thus the institutional context of the early 1980s – characterised by conflict and a highly unpredictable policy environment – exacerbated the already debilitating effects of structural change, resulting in a climate that precluded the possibility of attracting private investment. It also contributed to undermine confidence of Sheffield's own communities in their city and its institutions, and ushered in a period of deep distrust and cynicism. This breakdown of trust had significant negative consequences on dynamism in the city.

Despite its historical solidarity, Sheffield has long had a problem with trust in an economic context, partly as a result of the lack of diversity in the economy. The family firms which dominated Sheffield's cutlery sector were part of a distinct industrial district, but one which experienced rapid breakdown in its interconnected supply networks during the 1960s and 1970s as a result of shift from a social to an internal division of labour (Hayter and Patchell, 1993). As a result, business owners in the sector increasingly viewed each other as merely competitors rather than potential partners. This limited the potential for trust-based relations in the particularised economic context and therefore had implications on the microeconomy of personal exchange, raising the relative costs of search and enforcement and acting as a barrier to some of the external economies that would be normally accrue in an industrial district.

One of the main impacts it had was on innovation. Sheffield is perhaps a classic example of the dangers of lock-in and path dependence in specialised industrial districts (Antonelli, 1997). Business interests were bifurcated between increasingly delocalised multinationals like British

Steel, the Davy Corporation, and GKN, and the increasingly anachronistic family firms. The industrial behemoths had fewer and fewer direct links to Sheffield's business networks, and major decisions were taken far beyond the city walls. As a result, the firms that were responsible for most of the international exposure and innovation in the city were no longer contributing to replenish knowledge in the city. The vast majority of Sheffield family firms had little exposure outside the city. With localised social and business networks, limited labour mobility, and routinised interaction with a stable set of customers and suppliers, they were largely isolated from knowledge and technology developments elsewhere. Collaboration amongst companies within the region was almost non-existent by the early 1970s. According to the CEO of a major metals manufacturer: "In the past, the manufacturing companies saw themselves as competing for everything, so we would not come around the same table... we didn't even trust the universities to collaborate with us" (personal interview, M. Burnham, 26 August 2008). This inevitably led to inbred thinking and path dependent modes of operating. Despite growing competition from international producers, few of the family firms in Sheffield invested in new production technologies or in developing the specialised marketing skills to enable them to function in the changing competitive environment. Most of the firms that did invest and ultimately survive the downturn were recent entries that came from outside the region (Hey, 1998).

Levels of innovation in Sheffield are still far below the national average. Data from the *Community Innovation Survey 3* (covering the period 1998-2000) shows that only 4% of turnover in the local economy comes from "new products" against a national average of 7%, and that only 3.4% of local firms introduced "new processes" between 1998 and 2000, ranking Sheffield 40th amongst 56 English cities covered in the survey[30] (Department for Communities and Local Government, 2006). Although patent applications have grown substantially during the 1990s (up from 4.1 per 10,000 population in the period 1990-92 to 8.9 in 1999-01), it remains nearly 40% below the average for English cities (Department for Communities and Local Government, 2006). This comes despite relatively high levels of public research funding in the city and supports the anecdotal evidence suggesting that Sheffield's two major universities – the University of Sheffield and Sheffield Hallam University – remained "distant" until very recently (personal interview, C. Betts, 21 July 2008). Finally, despite expanding its service

[30] Note that the authors of the report which cites this data suggest that it should be taken with caution due to the relatively small sample size at the urban level.

sector in recent years, Sheffield has experienced slow growth in knowledge-based employment relative to other cities in the UK (Department for Communities and Local Government, 2006)

Community and society also contributed to Sheffield's low levels of economic participation. Certainly the significant economic decline experienced in the city over recent decades is a proximate cause of low participation. But even in the face of economic restructuring, neither community networks nor societal institutions provided incentives for participation; in fact, both worked against it. The narrow community networks meant that few individuals had connections outside of the city or with those who worked in different industries. As a result, when people looked around to their network for alternative opportunities, they found instead that everyone was in the same boat. Second, these closed networks and the culture of stability in Sheffield's communities contributed to the relatively low levels of labour mobility. Given the depth and length of the economic downturn in the city, surprisingly few workers left Sheffield to seek employment opportunities elsewhere. The South Yorkshire metropolitan county experienced a decline in population of only 2% (29,000) during the twenty years between 1971 and 1991, despite a net loss of tens of thousands of jobs. By comparison, during the same period the city of Pittsburgh in the USA, a steel town facing similar challenges to Sheffield, experienced a net decline of 150,000 residents, or 30% of its population (US Census Bureau, 2008), and Liverpool lost 130,000 residents (more than 20% of its population) (Office of National Statistics, 2008). The response of the City Council, through institutions like the DEED, was to try to maintain employment of the existing workforce using their existing skills base. Although a number of training initiatives were launched, the relative share of resources put toward fundamental reskilling of the manufacturing workforce was limited. This slowed the process of adaptation in local labour markets. Data on workforce mobility by skill level indicates that, between 1991 and 2001, Sheffield had relatively large net migration of skilled workers but little movement of workers in the lowest skill segment. Leeds, meanwhile, experienced much more balanced migration across all levels, with substantial in migration at the highest skilled classes of management and professionals (Champion, Coombs, Raybould, and Wymer, 2007). Moreover, the evidence suggests that Sheffield residents have not invested in human capital at the same rate as in other parts of the country. A recent comparative report showed that whilst the share of Sheffield residents with five good GCSEs rose from 38.3 per cent in 1997 to 44.6 per cent in 2004, its relative rank against 56 UK cities fell from 29th to 36th (Department for Communities and Local Government, 2006).

Participation and entrepreneurialism were also constrained by the City Council's lack of support for mechanisms like social enterprise and community economic development (CED), which might have facilitated dynamic responses in targeted areas. Throughout the 1980s CED was specifically rejected in Sheffield as this was seen to be in competition with the City Council's programme of action (personal interview, G. Dabinett, 26 August 2008). Instead they opted for a more macro-level, supply side approach targeted at people and industry rather than places. Funding from the EU and the SRB during the 1990s offered greater scope for community-based projects, but initiatives to develop social enterprise and to support social entrepreneurs remains poorly developed (personal interview, P. Grice, 27 August 2008). Partly as a result, Sheffield continues to suffer low levels of entrepreneurialism. Whilst the rate of business formation has increased in recent years, the gap between Sheffield and the national average widened throughout the 1980s and again recently – in 2004 VAT registrations per 10,000 population was 28.4 in Sheffield, ranking it 49th of 56 English cities (Department for Communities and Local Government, 2006).

Finally, the stability and isolation of business and social networks, combined with a paternalistic working culture characterised by life-long employment in large workplaces was also a significant barrier to entrepreneurialism. This had a cumulative impact over time, as the failure to develop an infrastructure of small businesses in the city, particularly in the service sector, acted as a further hurdle for would-be entrepreneurs needing to access a diversity of skills and services during start-up stages. And when the metal manufacturing sectors went into decline with large scale job losses, the small business sector was insufficient to absorb displaced workers and act as the basis for bottom-up development.

But Sheffield's traditional community structures also had benefits. The identity-based bonds that engendered a strong sense of civic pride and solidarity were instrumental in enabling the city to bridge the bitter divides and mobilise quickly when business and political elites finally realised the severity of its situation. A senior City Council employee recalled: "Having looked over the edge and seen the prospect of abject failure of our city, we realised we didn't want to go there... and got our act together" (personal interview, A. Topley, 5 August 2008). New public and private sector leaders were able to re-establish relations and rapidly mobilise support of their communities. Richard Field, the newly-elected head of the Chamber of Commerce in the late 1980s, described how quickly it was possible to mobilise action within the community: "We invited everyone in town who wanted to come to a meeting, locked the door, put up 12 flip charts... we also held a two week seminar, inviting 10 different city leaders each day for 10 days. They all had to build on what came out from the day before... we realised straight away two things: one, everyone loved Sheffield; two, we didn't know what to do about it... we ended up with 2,000 projects... the local media supported it by giving us a half page coverage every day... the level of participation and the desire for change was immense" (personal interview, 5 August 2008).

Sheffield's efforts to develop and implement a transformative economic development strategy illustrate how the strength of the city's tight community can lead to positive outcomes when coupled with stronger and more balanced societal institutions. Through the Sheffield First Partnership, the city has been able to bring substantially more voices to the table. Formal structures in the partnership ensure that its Boards have participation from across all relevant communities in the city and make public all of its meeting (indeed, most board meetings are open to the public). This has resulted in substantially more openness and transparency in the processes of selecting priorities, particularly with regard to policies of growth and redistribution. In practice it has meant that policies selected tend to be less likely to protect or benefit specific interests. Checks and balances in the city have also been improved as a result of greater political competition which has developed in the city over the last decade.

One of the results of this transformed institutional environment is that the city has been able to mobilise broad participation in the processes of vision setting and prioritisation, both of the economic development agenda and of the wider issues of managing the distribution of economic gains. In the process of establishing the *City Economic Masterplan*, the city managed to achieve a relatively quick and easy consensus. A senior manager at Creative Sheffield, which led the development of the Masterplan, remarked that the private sector: "did not agree with all of it, but said 'it makes sense on the whole' and were willing to back it" (personal interview, J. Hudson, 26 August 2008). The strength of community is also evident in the speed with which the city has been able to respond to recent crises. For example, following the devastating floods of the summer of 2007, a "Business Recovery Group" – led by the Chamber of Commerce and including the City Council, Creative Sheffield, Business Link South Yorkshire, and Yorkshire Forward engaged quickly to set up a phone line to provide support and advice to affected businesses. This proved critical not only in providing immediate relief, but in enabling businesses to recover quickly (personal interview, H. Rana, 6 August 2008).

But the newfound community consensus in Sheffield has its limits. Even within the private sector, there remains a disjoint between the forces of "continuity" and those of "change" (Department for Communities and Local Government, 2006). Several interviewees pointed out that many leaders in the business community are less than eager to see the city become a truly dynamic business centre. As one interviewee pointed out: "It's not just about manufacturing... a lot of the support businesses have become part of the furniture and are comfortable with the status quo. For example, there are only two PR firms in town and they trade contracts between themselves" (personal interview, E. Highfield, 8 August 2008). There has also been considerable tension over the degree to which Sheffield should support its traditional manufacturing sectors or diversify. The economic development approach that emerged during the 1990s tended focused on post-industrial (mainly service) sectors. But even moves into manufacturing of electronic games and biomedical instruments were not supported by those who felt that traditional metals and engineering sectors offered the best hope for sustainable, innovation-driven growth (Department for Communities and Local Government, 2006). However, consensus now seems to have emerged around five main sectors that suggests a balanced approach. These include: advanced manufacturing and materials (linked to the city's steelmaking expertise); biomedical and healthcare (with a specialisation in surgical blades linked to steelmaking and knife production); creative and digital industries (linked to the Cultural Industries Quarter in the city centre); sports science and technology (linked to the Lower Don Valley sports infrastructure developed for the 1991 World Student Games); and environmental technologies (Sheffield First for Investment 2005; Creative Sheffield 2005).

The institutional environment which has given a prominent position to the VCF sector has helped extend the consensus to Sheffield's many local and interest-based communities and ensure that the growth and transformation agenda is complemented by strong attention to issues of social development and equity. Senior executives from Yorkshire Forward and the regional Trades Union Congress pointed out the contrasts between Sheffield's integrated approach to development – involving the state, the private sector, and the local community – and the more private sector approach in Leeds (personal interviews, 29 July 2008). Yet there is a risk that, in the absence of balanced power across communities and of fully transparent and inclusive institutions, the partnership structures created in Sheffield could become an obstacle to progress whilst at the same time failing to give true influence to communities. Many interviewees criticise the current institutional environment as having bred a culture of 'overconsultation', leading to a fragmentation of structures and agendas. From the perspective of many in government and the private sector, this has resulted in the VCF sector becoming an obstacle to action, turning the partnership structures into mere 'talking shops'. Even the former Labour leader of the Council indicated that the VCF sector was now "disproportionately strong" (personal interview, J. Wilson, 26 August 2008). Many blame this for what is seen as a recent disengagement with partnership structures by the private sector.

Others contend that the partnership structures are simply mechanisms through which the corporatist agenda can be legitimised through processes of consultation. The result is that interest groups get some voice at the table, but ultimately power remains with the business and political elite. As one prominent VCF sector leader noted of Sheffield First Board: "Very little seems to come up from the individual 'family' partnerships. Key decisions seem to get taken and money allocated before it comes to the board... We always have good discussions at the meetings, but it is unclear if there is any link with the policy decisions taken. One example is the Neighbourhoods Fund – they have set up a task group for this but it hasn't met yet... £13m will already have been allocated before we have our first meeting!" (personal interview, P. Grice, 27 August 2008).

The more community-orientated development approach in Sheffield is the result, in part, of the city's solidarity, but is also indicative of the continuing reliance on the state as the initiator and driver of growth. This has had a significant impact on the process of city planning and on investment in the city. In stark contrast to Leeds, the vast majority of physical investment in the city over the past twenty years has come through public funding, and a large share of that has gone into developing public. More than £130m was invested into the city centre as part of

Sheffield's "Heart of the City" strategy which aimed to transform the physical realm of the centre city as a long term investment in the social and economic well-being of the city. This has widely been viewed as a critical turning point, facilitating private sector interest and perhaps more than anything changing the mood of the city during its recovery. In addition, large scale investments with a more targeted industrial policy agenda were made since the 1980s, and many of these have been broadly successful. One example is the Advanced Manufacturing Park (actually based in nearby Rotherham), which has recently developed around the £28m EU-funded Advanced Manufacturing Research Centre (AMRC), a collaboration between engineers at Boeing and the University of Sheffield (Winkler, 2007). Another is the Cultural Industries Quarter (CIQ), founded by the City Council during the 1980s, which now employs some 3,000 people and constitutes the central plank of the city's creative industries activity (Dabinett, 2004).

But the development approach which emerged from the city's specific institutional context has its risks as well. For one, Sheffield's localism has been reflected in its approach to development, which has tended to spurn (wherever possible) national programmes in favour of solutions that are "Made in Sheffield" (Strange, 1996). The development model has also focused on large-scale, publically funded projects which give physical evidence of Sheffield's 'rebirth'. Such projects run risk of becoming 'white elephants' and of failing to create sustainable changes in the fabric of the economy, in skills, entrepreneurialism, and risk-taking investment. Sheffield's decision to host the 1991 World Student Games at a cost of well over £100m – taken at a time when Council was still at odds with central government and, as a result, done in the absence of central government financial support – resulted in a major financial losses that nearly bankrupt the city. More recently, the £15m Sheffield National Centre for Popular Music was opened in March 1999 and closed within nine months. Sheffield's success in attracting central government funding for the Supertram was mitigated by the fact that it was loss-making from the beginning and was ultimately sold off to a private bus company for only £1m (Winkler, 2007)[31]. The Science Park (part of CIQ), set up as an incubator for technology start-ups in the digital, IT, e-business, software and multimedia sectors, is now operating largely as a generic office development (Dabinett, 2004). The government-led approach to investment also raises the wider risk of crowding out the private

[31] Supertram continues to operate and provide important services, particularly connecting residents in the Lower Don Valley with the city centre.

sector, much in the same way the large factories of the past obviated the need for individuals to develop alternative skills or create entrepreneurial opportunities.

Finally, Sheffield's reliance on strong individual leaders to mobilise its partnerships and drive the development agenda raises concerns over the sustainability of the partnership model. This is of particular concern since Chief Executive Bob Kerslake moved to take a position in central government in early 2008. Interviewees suggest that the vacuum left by his departure is significant, and there are real fears of an unwinding of partnership-based institutions in the city. Indeed, there is evidence that the partnership model is already fraying: "Generally groups in the city have been willing to compromise to move forward... but we are losing that day by day" (personal interview, E. Highfield, 8 August 2008); "some high level representatives are beginning to unravel" (personal interview, J. Wilson, 26 August 2008). Even within the government, consensus may be at risk as the new leader of the Council (now in the hands of a Liberal Democrat – Tory coalition), the new Chief Executive (John Mothersole), and the development agency (Creative Sheffield) engage in a power struggle to determine who will control the reins of economic development. The result may have important implications for the institutional model of development in the city; according to one interviewee: "if control goes back to the Council (political leadership) it will mean the beginning of the end of private sector engagement" (personal interview, J. Hudson, 26 August 2008).

Of equal importance is the concern over how well Sheffield can continue to operate the partnership model and sustain its economic recovery in the absence of massive public funding. Grants from both EU Objective 1 and the Single Regeneration Budget are ending in 2008. Without access to this funding, the city will be dependent on the private sector to initiate investment. Researchers argue that the city has not yet developed a vigorous and diversified private sector, with new firm start-ups still very limited and little evidence of the business sector reproducing itself through spin offs (personal interview, G. Dabinett, 26 August 2008). And the decline in funding may have an even more severe impact on the capacity for broad participation by local and interest communities in the citywide partnership structures. Whilst some large organisations such as ZEST, Manor and Castle, and the Heeley Development Trust have developed sustainable funding models, most voluntary and community sector organisations are unlikely to do so. As a result many will close or consolidate, and reduce their involvement in wider city-level initiatives.

Overall, there is a sense from interviewees that Sheffield's recovery might be losing its momentum. On the other hand, the Sheffield First Partnership appears to have completely rewritten the rules of engagement in Sheffield. It has not only served to modernise societal institutions through greater voice and openness but has catalysed community engagement by building capacity in community groups and allowing them to participate openly in the city's problem solving institutions. These gains are unlikely to be completely, or even largely, reversed in the medium term. Unlike the case of Leeds, in Sheffield virtually everyone recognises the transformed institutional setting as fundamental to the economic recovery process. Amongst the verdicts reached by interviewees in this regard are the following:

- "(the recovery) would have been almost inconceivable without Sheffield First" (personal interview, N. Warren, 6 August 2008)
- "We'd have second rate chains producing second rate goods" (personal interview, D. Baker, 6 August 2008)
- "People would not consider Sheffield as a serious, credible place to do business without it" (personal interview, H. Rana, 6 August 2008)
- "We would be on the same trajectory but years behind... sporadic development" (personal interview, E. Highfield, 8 August 2008)
- "Industries would have retrenched much faster and much further" (personal interview, M. Burnham, 26 August 2008)
- "... we would be stuck with a low value economy... Development would have come here because it was cheap. We would have city centre with lots of call centres, low value employment, and low grade offices" (personal interview, J. Wilson, 26 August 2008)

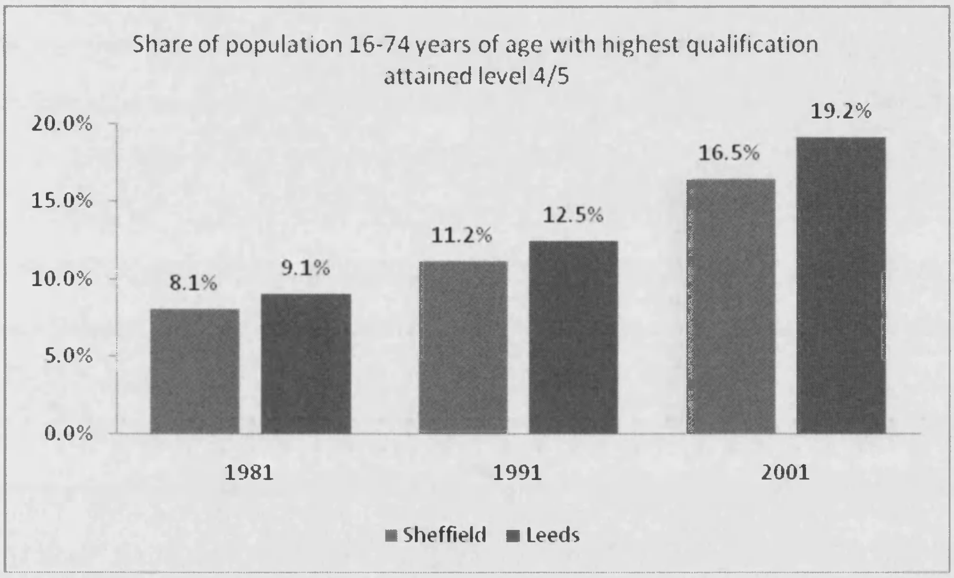
5.5.2. *Leeds*

In Leeds, the relatively strong and steady economic growth in the city over the past three decades is a testament to a cultural and institutional environment that rewards innovation and risk taking and avoids incentives (both interventions and non-interventions) which entrench the status quo. In contrast to Sheffield, economic change in Leeds is not a process that can be easily charted from the outside – there have been no major policy revolutions or overnight changes to the physical fabric of the city. Rather, the city has been able to achieve steady structural change in its economic base whilst continually evolving its economic institutions.

Relatively high mobility combined with diverse, instrumental business and social networks has helped facilitate a dynamic labour market in Leeds, with economic activity and employment rates well above the national and regional and dramatically higher than in Sheffield. In addition to lower search costs brought about by local networks, participation is influenced both by the culture of Leeds' communities and by institutional structures in the city. A good example of this is in the relatively high levels of female participation. Despite sharing a traditional male-dominated Yorkshire culture, Leeds appears to have broken down barriers to females entering the labour force much more quickly than other cities in the region. By 1981, more than 47% of females in Leeds were economically active; by 2007 it had reached over 75.1%, well ahead of the national average. In addition to a culture that appears to be more ready to embrace change and a sectoral structure that supported female participation, the city also implemented an innovative programme designed to tackle female exclusion in local labour markets. "Opp 2K", launched by the City Council in 1993 through the Leeds Initiative, was a unique public private partnership which allowed members to share work practices to promote and enhance female employment prospects and working conditions (Kettle, 1996).

Contrary to the historical situation in Sheffield, labour force participation in Leeds does not appear to rely on stability. Anecdotal evidence suggests that workers in Leeds move firms and even industries at a far greater rate than in other cities in the region. This is facilitated by the high levels of sectoral diversity in the city, but it also reinforces this diversity by developing a base of flexibly skilled workers who are mobile in response to structural shocks. Many of the same forces of community and society that encourage labour force participation have similarly important links with human capital development. Ongoing evolution of skills is required to exploit the economic opportunities created in the city, particularly the expansion of higher value added service sectors. This has encouraged investments in human capital, and specifically in developing transferable rather than specialist skills. Figure 5.8 shows the evolution of high skill attainment in Leeds versus Sheffield between 1981 and 2001. Not only does Leeds maintain a significant advantage in its share of highly skilled workers[32], but it has actually increased this advantage between 1991 and 2001; in this decade Leeds increased the share of its highly skilled population by over 50%.

Figure 5.8:



Source: Office of National Statistics

The diversity within business networks in Leeds has important potential benefits in terms of lowering transactions costs and promoting innovation. Whereas Sheffield's tight social networks often encompass competitive relations at the business level, the diversity in Leeds' networks more often highlights complementarities that can be exploited through networks. This opens up significant possibilities of facilitating opportunities for knowledge sharing and innovation. Wainright (1991) describes how Leeds-based companies give significant business to local financial, legal, and other service providers rather than turning to London-based suppliers. Evidence from the city's sectoral evolution – which progressed from flax to clothing to engineering to finance – suggests that this practice has played an important role in facilitating the development of new industries. For example, Waddington's plc, formerly a

[32] As defined by the share of population with level 4/5 qualifications – this level covers: First Degree, Higher Degree, NVQ levels 4 and 5; HNC; HND; Qualified Teacher Status; Qualified Medical Doctor; Qualified Dentist; Qualified Nurse; Midwife; or Health Visitor.

games manufacturer[33] moved into producing speciality paper and now supplies many of the local financial services firms in Leeds (Thomas and Shutt, 1996).

These dynamic, bridging networks are the driving force behind the specific nature of the Leeds development model. Many of the main economic development initiatives emerge through informal growth coalitions, often temporary in nature. These coalitions tend to be highly instrumental, focused, and driven by small groups of people with a specific growth-oriented agenda. It results in outcomes that tend to be innovative, if sometimes short-lived. For example, the recent development and promotion of Leeds as a 'city of culture' did not call on any permanently defined interest group representing the arts and culture community in Leeds. Instead, collaborative relationships formed as a "pragmatic partnership between institutions, agencies, and private sector companies... relate(d) more to specific events and initiatives than attempts at strategic-level cooperation and coordination" (Strange, 1996b). Similarly, Leeds' success in developing an environmental policy – its *Green Strategy* – can be attributed to forward thinking leadership and the ability of a few individuals to quickly build a loose coalition of supporters (While, Jonas, and Gibbs, 2004).

The interaction of community level networks and societal institutions in Leeds has also contributed significantly to the risk-taking and innovative nature of the city's economy in recent decades. Diversified business networks support the city's entrepreneurial culture by providing access to a wide range of services needed at the business start-up stage (including, critically, venture capital), underpinned by low search costs and high trust. The city's formal economic development policies have also supported entrepreneurship. Whilst Sheffield responded to the employment crisis of the early 1980s by establishing an employment board and creating state-funded jobs, in Leeds they established the Yorkshire Enterprise Board, which had broadly the same aims as DEED but sought to achieve them by providing venture capital for small businesses (Kettle, 1996). Even back in the 1970s, Leeds' urban development strategy was focused on providing funding and support services for small businesses in targeted areas. This provided incentives for entrepreneurialism and gave little scope for rent seeking by existing elites (Bateman, 1986).

[33] Waddington's is famous for being the UK publisher of *Monopoly*; they sold their games business to Hasbro in 1994.

Whilst partnership in Leeds has probably been most impactful at the informal level, its formal manifestations have also contributed significantly to the city's economic growth. In one of the early examples of formal partnership working, the LDC, the City Council, British Waterways, and the English Tourist Board came together for the Leeds Waterfront Redevelopment Project (Deas, Robson, and Bradford, 2000). This resulted in Leeds beating competition from Sheffield to win the £42.5m Royal Armouries Museum development, and subsequently facilitated developments including Brewery Wharf and the West Yorkshire Playhouse. The particularly strong, formal institutional links between the LDC, the City Council, and the business community (through the Chamber of Commerce) was seen as instrumental to the success of this initiative.

The formal partnership institution – the Leeds Initiative – has not only delivered on development of the *Leeds Vision*, various strategic plans, and a number of specific development initiatives, it has also played a particularly important role in bridging informal networks in the city. Indeed, many who have participated in the Leeds Initiative argue that its role as a network facilitator has been its most important contribution. As one interviewee put it, "The major virtue of the Leeds Initiative is that people who should have known each other anyway are now strongly networked" (personal interview, K. Grady, 29 July 2008). The Leeds Financial Services Initiative (LFSI), for example, has helped encourage new investment into the city in part by tapping into local business networks. Participants regard it as a way to bind together key individuals at the top of organisations. Perhaps more importantly, however, they suggest that participation gives firms access to critical market-leading information, helping them stay on top of changes in the economy in order to be prepared and constantly adapt. Interviewees note how the LFSI has been able to phone up firms to ask their senior people to make themselves available for a day in order to meet with potential investors coming into Leeds, even when these investors may represent possible competitors. As a senior banking sector leader pointed out, it all works well "as long as the LS1[34] cake is getting bigger" (personal interview, P. Walton, 11 August 2008).

At a wider level, the structure of community and the partnership institutions that have emerged have played an important role in forging agreement around a vision for the city. This

[34] The postcode for central Leeds

has been greatly facilitated by the long-term environment of political consensus in the city and a middle class consensus which broadly supports future growth over redistribution. The consensus been supported by institutions such as the Leeds Initiative, which are designed to engage citywide actors who may have previously lacked voice and influence whilst at the same time arguably co-opting these groups into the city's growth coalition. A clear vision for the city, based primarily on the planks of "going up a league" (the economic growth agenda) and "narrowing the gap" (the social equity agenda), has come out of the Leeds Initiative. This is seen to be widely known and well-supported: "everyone talks about it and knows the projects linked to it" (personal interview, P. Stephens, 29 July 2008); "people now say everyone in Leeds going in the same direction..." (personal interview, K. O'Connor, 30 July 2008). Participants in the Leeds Initiative note that having a permanent, single supra-partnership rather than relying purely on ad hoc coalitions has enabled the city to move various parties to an agreed position on divisive issues like the proposed arena and Leeds' (ultimately unsuccessful) Supercasino bid (personal interview, M. Dean, 4 August 2008). This is particularly important in a city lacking the solidarity that forges consensus in places like Sheffield.

So, in the absence of major state-directed growth initiatives, of permanent, interest-based coalitions, or of a powerful leader or cabal (as some interviewees put it, the lack of a "Leeds Mafia") large enough to drive the development agenda, Leeds'economic development model has aimed to achieve modest, evolutionary growth rather than implement large scale projects. The model is described by While, Jonas, and Gibbs (2004) as being "steady burning... revolving around relatively small-scale redevelopment projects, rather than the major physical or image transformation". It has done so through a benign, pro-business enabling environment that supports sectors that have established a position in the market rather than attempting to develop new industries from scratch. The consensual political and broadly stable institutional environment has reduced uncertainty in the microeconomic context. This has allowed individual entrepreneurs to engage in risk-taking behaviour in response to market opportunities. It has also given incentives to individual workers to invest in ongoing skills development. Most importantly, it has avoided distorting the local market through major government-funded development or subsidies to existing sectors, minimising the potential for rent seeking and for promoting entrenched interests. The result has been strong, steady – if not spectacular – growth, high levels of private sector investment, and ongoing adaptation of individuals, firms, and the the broader local economy.

Some within Leeds are more critical, suggesting the growth model lacks sufficient ambition and direction. As one interviewee from the City Council commented: "the ambition is clear but the implementation is sometimes half-hearted... everything is done in an incremental way" (personal interview, P. Crabtree, 11 September 2008). Many interviewees expressed concern that growth in the city was essentially undirected. This was expressed most clearly in the physical development of the city. Whereas Sheffield has developed a well-defined, centrally-driven city Masterplan, Leeds (rare for any city of their size) has no formal plan. This had resulted in largely private sector-led development, which many suggest lacks appropriate coordination. The city's development plan framework (Leeds City Council, 2006) states clearly: *"Over the last two decades, the guiding ethos for the growth and success of Leeds city centre has been to minimise impediments to private sector investment. Controls have been exercised which 'go with the grain of the market' or which have been recognised as being a necessary minimum"*. According to the Director of the Leeds Civic Trust, this has meant that the City Council is "happy for any 50 story building... it doesn't matter what it looks like or where it is" (personal interview, K. Grady, 29 July 2008). This undirected model of growth has also been evident to some degree in the development of key economic sectors in the city. For example, Leeds' development as a cultural centre has been described as an area that was "drifted into" (Chatterton and Unsworth, 2004) or as "opportunistic" (Strange, 1996) without any clear strategy until very recently.

Others argue that ambition is in fact the biggest problem. The Council is seen to view itself as a "pragmatic, safe pair of hands" (personal interview, K. Grady, 29 July 2008); and indeed it is seen by many to be one of the best managed councils (particularly fiscally) in the country. But with pragmatism many feel has come an unwillingness to undertake any major investments – "they are loathe to stick their necks out..." (personal interview, R. Unsworth, 30 July 2008). Leeds has an antipathy for landmark properties and tends to shy away from major projects. It was noted by several interviewees that the city would hardly consider taking on such projects like the Commonwealth Games (Manchester) or a £700m rail station development (Birmingham).

The other clear downside that results from Leeds' model of community and society is the continuing problems of deprivation in the city and the apparently growing levels of inequality. Leeds now has the 6th highest rate of income inequality amongst all UK cities (Centre for Cities, 2007), a less than comfortable position for a traditionally egalitarian, 'middle class' city. With an increasingly gentrified city centre and prosperous outer suburbs, deprivation is concentrated in Leeds' city centre fringes and near suburbs like Chapeltown, Harehills, and Beeston, areas which are home to many of the city's immigrant communities. Concerns over the development of a "two-track" city (Haughton and Williams, 1996a) in Leeds have become widespread in recent years. That these concerns are registered prominently, however, is partly the outcome of strong partnership institutions as well as the development of active, effective groups like Leeds Voice speaking on behalf of these communities. The degree to which these issues have been accepted as fundamental to the city's future is evidenced by the adoption of the "Narrowing the Gap" agenda as one of the two main planks of the Leeds Vision. On the other hand, the ongoing battles within the Leeds Initiative to separate the "Going up a League" and "Narrowing the Gap" and to minimise VCF participation on the "Going up a League" board suggests that the business community and the City Council in fact continue to prioritise the corporatist growth agenda.

Chapter 6: Case studies of regional adaptation – Montréal and Toronto

6.1 INTRODUCTION

"In Toronto community is confrontational with the state; in Montréal they are part of the state... in the long run confrontation is necessary to avoid stasis and to provoke innovation" (personal interview, J-A. Boudreau, 13 June 2007)

Following on from Chapter 5, this case study looks at two cities in Canada – Montréal and Toronto – and explores how the forces of community and society shape their development trajectories over approximately 30 years from the early 1970s. As Canada's two largest cities, Montréal and Toronto have faced a similar set of economic and social challenges over the past thirty years, deriving from processes of globalisation and the crisis of Fordism. Decline in the manufacturing sector, had a significant impact North American cities from the early 1970s, led in both Montréal and Toronto to rising unemployment, growing pressures on social services, and a requirement to restructure regional economies to address gaps in long term productivity and competitiveness. In parallel with the threat to traditional bases of competitiveness, both cities faced rapidly growing international immigration, with Toronto alone absorbing in excess of one million new immigrants between 1980 and 2000 (Statistics Canada, 2002). This demographic shock was compounded by the accelerating pace of suburbanisation of the middle classes and business, increasing fiscal pressure on the cities and setting the stage for conflict and competition within metropolitan municipalities. Between 1970 and 2000, the inner city populations of both Montréal and Toronto actually declined whilst their suburban populations doubled. Finally, during the 1980s and 1990s Canada's federal government and provinces began 'downloading' responsibility for delivery of social services to municipal governments, often with an unfunded mandate (OECD, 2002). The result was that cities like Montréal and Toronto faced increased service delivery responsibility at a time when demand for these services was growing (from structurally displaced workers and recently arrived immigrants) and the tax base to fund them was shifting to the suburbs.

Yet in the face of these common challenges, Montréal and Toronto followed quite different development paths over this period. Whilst both cities are today relatively prosperous and rank highly amongst global peers in surveys of quality of life, Toronto's economy has outperformed Montréal's by most statistical measures. Montréal experienced relative stagnation over much of the past thirty years, as it only too slowly developed knowledge and technology intensive alternatives to its reliance on traditional labour intensive manufacturing sectors. Toronto, by contrast, has experienced growth well in excess of the Canadian and North American average throughout most of this time, diversifying its economy whilst maintaining a strong manufacturing sector. Moreover, until recent years, its growth did not come at the expense of a deteriorating social environment as was the case in most North American cities (Donald, 2005).

Montréal and Toronto offer good basis for comparison due to their many similarities, not least of which is their position as the two largest metropolitan areas in Canada. As such they share a basic institutional superstructure in the form of the Canadian federal constitution and its related political institutions. They also operate under common set of national macroeconomic and social policies, including interest rates, trade policy regimes, and unemployment insurance. This at the very least influences business cycles, but is also likely to shape the nature and range of development paths that are available to the cities. On the other hand, several crucial differences between Montréal and Toronto provide a basis for understanding how alternative structures and operating modes of community and society influence processes of regional adaptation. Canada's high level of fiscal decentralisation[35] offers considerable scope for differential policy response at the sub-national level, although historically most of this devolved power has been exercised at the provincial rather than municipal level[36]. Moreover, as a 'province apart' since the 18th century, Quebec has had still greater autonomy in terms of institutions (e.g. a civil law system) and policy tools (e.g. Quebec opted out of the Canadian Pension Plan and set up its own), providing further scope in Montréal for alternative responses to external change.

[35] According to the OECD (2002), only 40% of government spending in Canada takes places at the federal level, making it the second most fiscally decentralised country in the OECD (next to Switzerland).
[36] Indeed, an issue of great consternation (at least for cities) and debate is the fact that, according to the Canadian constitution, cities are "creatures of the provinces" and as such have limited powers, particularly in terms of raising revenue authority.

We argue that differences in the structure and interaction of community and society and their impact on city and regional institutions in Montréal and Toronto help explain the way each city adapted to a changing economic environment. We do not contend that this is the only explanation or that other factors like sectoral specialisation have little to do with it. Indeed, we suggest that there is an important interplay amongst several explanatory factors and that, for example, sectoral specialisation and institutions are likely to reinforce each other and contribute to path dependence.

In Montréal, a highly paternalistic governance model combined with a clear fracture between the French and Anglo communities, resulted in one community capturing the institutions of society to the exclusion of other communities, which happened at that time to comprise the economic elite. In the absence of social compromise, the policies that followed from this were redistributive to benefit one community, rather than being productive for the society as a whole. The low trust, confrontational societal environment that resulted and the lack of bridging institutions restricted individual participation within closed communities (impacting investment, labour force participation, educational attainment, and productivity), acting as a barrier to innovation and learning in the economy, and ultimately as a restraint on growth. Strong bonding communities and a highly institutionalised societal approach to development helped maintain a degree of social cohesion, but it did so through costly subsidies and handouts and at the expense taking steps to adapt the economy to changing circumstances.

In Toronto, the absence of polarised communities, a history of consensual problem solving, and a strong trust-based associative capacity enabled groups to bridge easily, resulting in a society composed of networks of overlapping, instrumentalist communities. This model, operating in an environment of a relatively passive local state, allowed for the evolutionary development of Toronto's economy. Its historical success at maintaining social cohesion along with growth has relied to a certain degree on a relatively generous federal system, a benevolent and progressive elite, and a consensual model of politics, all of which are being threatened by cultural, demographic, and governance changes. However, recent evidence of bottom-up initiatives by private sector coalitions to address socio-economic challenges in the city suggests that the model may yet remain sufficiently robust to ensure that Toronto maintains its superior development trajectory.

This chapter is structured as follows: the next section introduces Montréal and Toronto and traces their common historical development and diverging trajectories; following this, we examine the structure and operation of community and society in both cities; finally, we explore how these structures of community and society influenced economic institutions and shaped the processes of regional adaptation in both cities.

Throughout this chapter we use the generic term 'city' to refer to the wider city-regions that broadly encompass the downtown or central business districts and the suburbs, more or less equivalent to the functional urban regions. More precise terms will be used when referring to specifically defined tier of governance or a more specific territorial area (e.g. the metropolitan area, the downtown, the City of Toronto, etc.). Statistics, unless otherwise noted, refer to the census metropolitan area (CMA), which covers the core cities and their immediate hinterlands. Whilst this is not an ideal tier at which to define the city (it is broader than the traditional 'downtown' but yet not broad enough to capture the functional urban region), it is the best scale at which to capture comparative data in both cities from Statistics Canada. Note that we also include provincial level assessment both qualitative (where relevant, e.g. on policies and the role of government) and quantitative (where statistics cannot be disaggregated).

6.2 THE DEVELOPMENT PATHS OF MONTRÉAL AND TORONTO

6.2.1. Historical developments and changing trajectories

Both Montréal and Toronto were incorporated in the early 1830s and functioned as important regional transport hubs throughout the 19th century. In Montréal, the opening of the Lachine Canal in 1825 linked the Port of Montréal to the Atlantic Ocean, enabling direct sea trade with Europe. The growth of shipping on Lake Ontario allowed Toronto, with its protected harbour, to become a major transport gateway to the North American interior. Rapid industrialisation followed in both cities, fuelled by an influx of immigrant labour from Britain and Ireland, and supplemented in Montréal with substantial migration of rural Quebecois. By the mid 1800s Montréal was the largest city in North America and the economic capital of Canada. Both cities continued to grow rapidly in the early 20th century; by the start of World War II Montréal, with a population 35% greater than Toronto's, was still the dominant commercial and cultural centre of Canada.

At the end of the 1960s, the city of Montréal accounted for nearly half of all manufacturing employment in Quebec (Brown and Baldwin, 2003), and the sector contributed more than 30% of employment in the city-region (Statistics Canada, 1987). In comparison to the manufacturing sector in Toronto, Montréal's consisted of more SMEs and was more concentrated in labour intensive activities, most notably the textiles sector (Vinodrai, 2001). Yet far from being simply a manufacturing hub, Montréal at this time was also the financial centre of the Canadian economy, with most of the country's major banks making the city their headquarters location, and the Montréal Stock Exchange accounting for the vast majority of all Canadian share trade (Kresl, 2000). The financial sector, and through it most industry, was dominated by Montréal's minority Anglophone population through the 1960s (Raynauld, 1973; McRobert and Posgate, 1980; Germain and Rose, 2000). By the middle of the 1960s, however, following the 'Quiet Revolution' which ushered in the secularisation and modernisation of Quebecois society, the structure of the city's economy began to change in important ways. Most notably this involved large scale state participation in the economy and society. This not only funded dramatic expansion in education, health, and welfare, but also a programme of economic nationalisation (Larocque, 1973), with provincial 'crown companies' established in the financial (SGF and *Caisse de depot et placement*), energy (Hydro Quebec), iron and steel (Sidbec), mining (SOQUEM), petroleum (SOQUIP), and forestry REXFOR) sectors.

During this same post-war period, Toronto's economy experienced massive expansion through immigration and a 'baby-boom'. Virtually all of the growth, however, took place in the rapidly developing suburbs. Between 1951 and 1966 the population in the city of Toronto actually declined by some 13,000, whilst the CMA population as a whole grew by more than one million (Statistics Canada, 1966). With the completion of the St. Lawrence Seaway in 1959, which enabled ocean going vessels to connect from the Atlantic directly into America's manufacturing heartland through Lake Superior, Toronto solidified its position as a key trade and distribution centre. The city-region became a favoured location for US manufacturers to invest in branch plants to serve the Canadian market, particularly in the automotive and food processing industries. The Automotive Pact signed between Canada and the US in 1965 opened the door to substantial new investment in automotive manufacturing in Ontario, much of which clustered in the Greater Toronto area (Anastakis, 2005). Although Toronto's manufacturing sector was more diversified and less labour intensive than Montréal's, its economy as a whole still had a strong reliance on manufacturing by the end of the 1960s, and its financial services sector, though developing rapidly, was a relatively small player in the North American context.

Entering the 1970s, Montréal was still the largest city in Canada by population. It was also still arguably its major commercial capital, although by this point Toronto was beginning to challenge Montréal's position. During the 1970s, however the divergent trajectories of the two cities became clear. The impact of industrial restructuring which hit Montréal's economy in the early 1970s was compounded by the emergence of ethno-linguistic politics, leading to the election of the Parti Quebecois to provincial government in 1976. The subsequent imposition of Bills 22 [1974] and 101 [1977] mandating French as the official language for government, education, and commerce, was seen as the catalyst for the flight of the Anglo-dominated financial and corporate headquarters sectors from the city. Virtually all the large Canadian banks[37] shifted out of the city, mostly to Toronto. And on the tails of the banks went many large corporations and much of the rest of the financial sector. Between 1978 and 1981 alone, approximately thirty major companies moved their head offices out of the Montréal (Germain and Rose, 2000). The gloom in Montréal was further compounded by a deep fiscal crisis in municipal government brought about by the boosterist development projects of Mayor Jean Drapeau, most notably the financially disastrous 1976 Summer Olympics, which saddled the city with billions of dollars of debt[38]. At the same time, Montréal experienced a suburban shift which, although less stark than in Toronto, nevertheless had significant fiscal, social, and cultural impacts. Middle class households and the region's main growth sectors such as aerospace, biotechnology, and pharmaceuticals, increasingly moved to the suburbs (Manzagol and Bryant, 1998). Despite numerous federally funded economic strategies such as the Picard Report (Picard Commission, 1986) and huge state investment aimed at restructuring the economy, the city continued to suffer relative decline stemming in part from the effects of a

[37] Even the Bank of Montréal shifted its operational headquarters to Toronto in 1977, although it maintained its legal head office in Montréal.

[38] Debt on the Olympic Stadium was finally repaid in 2006; the city remains, however, in substantial arrears. Long-term debt is over C$4 billion, three times the per capita average of large Canadian cities (Aubin, 2007).

national recession in the early 1990s and the continued deterioration of the manufacturing sector following the implementation of NAFTA.

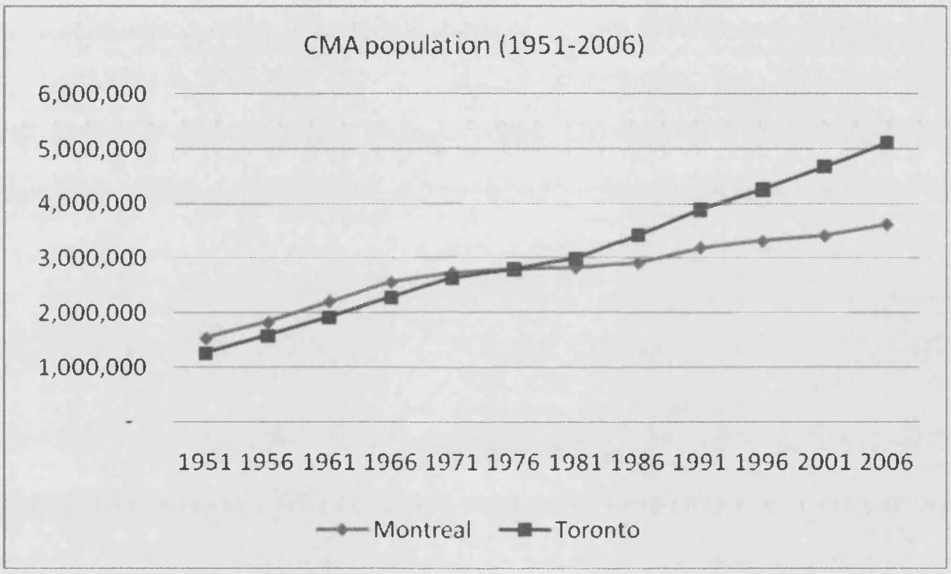
Toronto's economy, whilst facing similar challenges to its traditional manufacturing sectors, benefited from the political uncertainty in Quebec, attracting substantial finance, banking, and headquarters activities from Montréal during the late 1970s. In the 20 years between 1976 and 1996 Toronto went from a services backwater to become one of North America's most important financial and business centres. Toronto's CMA, with just over 15% of the Canadian population, now accounts for nearly 27% of all employment in the Financial, Insurance, and Real Estate (FIRE) sector (Toronto Economic Development, 2003). GDP in Toronto's FIRE sector is now 2.5 times that of Montréal's and 80% larger on a per capita basis (Conference Board of Canada, 2008). Along with this, Toronto has attracted the lion's share of headquarters and other 'command and control' functions for the Canadian economy; Toronto's advantage over Montréal in share of employment in these sectors doubled between 1981 and 1996 (Coffey and Polese, 1999). Growth in high-order services has been an important component in the gradual diversification of the Toronto's economy during the 1970s and 1980s.

But Toronto's economic success over this period did not simply derive from a shift toward service and knowledge intensive sectors; it also managed to maintain competitiveness in its traditional industrial sectors. Brown and Baldwin (2003) show that in the period from 1976 to 1997, the city of Toronto and its near suburbs actually increased their share of provincial manufacturing employment from 45% to 50%. Similarly, the transportation and warehousing sector in the CMA grew at more than twice the national average from 1987 through 2002, adding 25% more jobs over this period (Toronto Economic Development, 2003). Of course, Toronto still suffered considerably during the recession of the early 1990s; more than 120,000 manufacturing jobs were lost in the CMA between 1987 and 1994. The automotive manufacturing sector in particular was hit hard, shedding more than 25% of its jobs during this period. The collapse in the real estate sector also led to major job losses in the construction and FIRE sectors. Overall, however, these setbacks were relatively short-lived, and the diversity of Toronto's economy enabled it to limit both the depth (at the peak of the recession employment was less than 2% down from pre-recession levels) and the length of the recession.

6.2.2 *Economic outcomes*

The result of these diverging growth trajectories was that by the end of the 1970s, Toronto had already surpassed Montréal as the largest city-region in Canada (see Figure 6.1). During the 1980s the pace of divergence between the cities increased markedly, so that by 2006 Toronto's CMA population was more than 40% higher than that of Montréal. And this demographic reversal of fortunes was reflected in the economic and social developments over the period. From the 1970s up until at least the mid 1990s, Montréal experienced slower growth, higher unemployment, lower productivity, and lower population growth than Canada overall. Toronto by contrast, grew well in excess of the Canadian average.

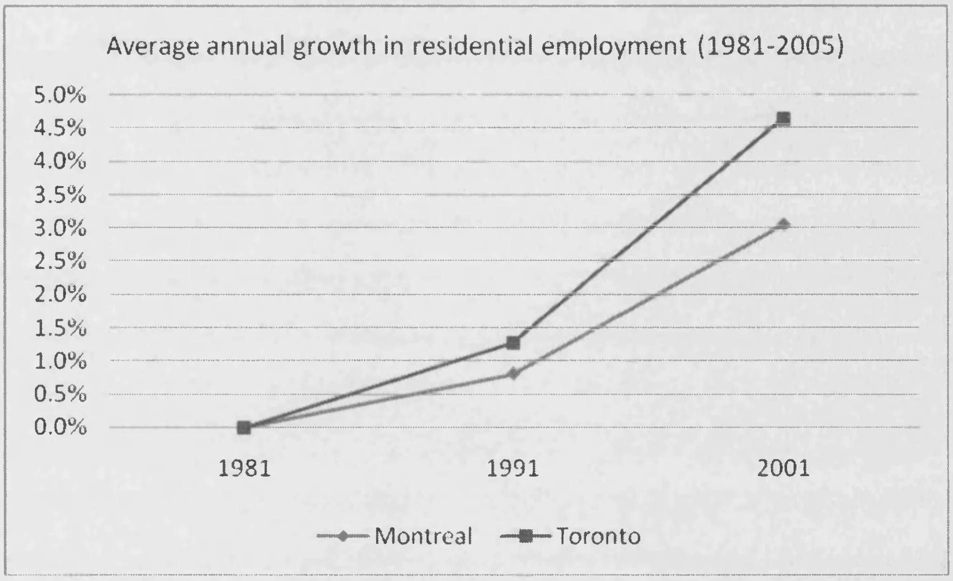
Figure 6.1



Source: Statistics Canada (Census data)

No city-level data is available on GDP and job creation from the 1970s. However, Figure 6.2, which traces employment growth from 1981 through 2001, shows that even from the early 1980s, Toronto was creating jobs at a much faster rate than was Montréal – throughout both the 1980s and the 1990s, employment in Toronto grew nearly 60% faster than in Montréal. A similar pattern is evident through the mid 2000s.

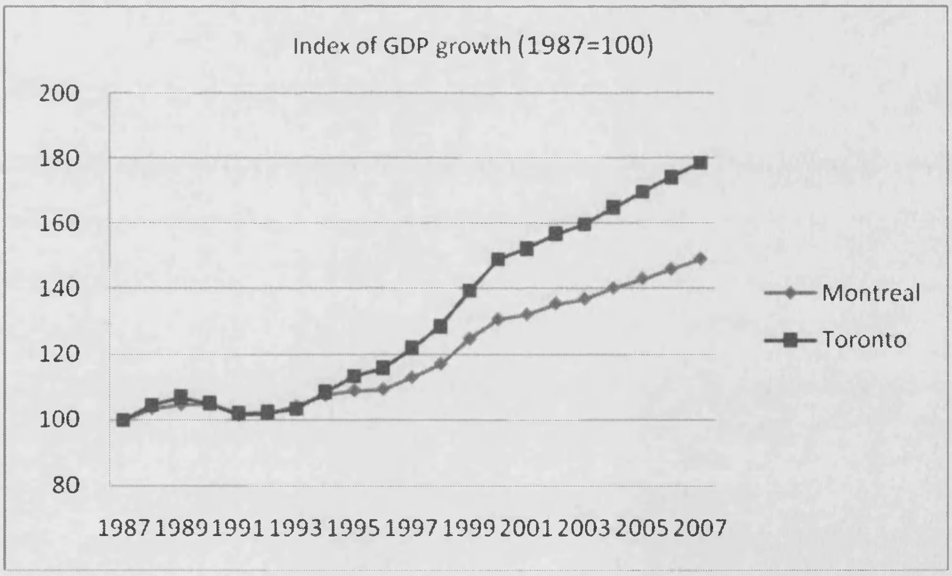
Figure 6.2



Source: Statistics Canada (Census data)

Comparative data on output (GDP) is only available from 1987. Figures 6.3 and 6.4 indicate that on this measure as well, Toronto has substantially outperformed Montréal over the past twenty years.

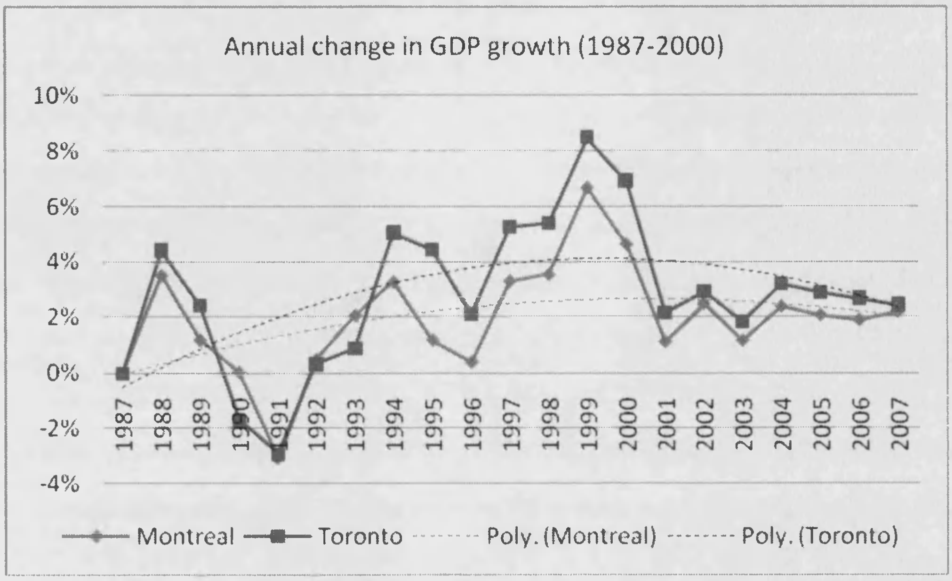
Figure 6.3



Source: Conference Board of Canada

Figure 6.3 shows that output in Toronto grew nearly 8% faster than in Montréal during the 1980s and actually grew at a faster relative rate (nearly 11%) during the 1990s, the period in which Montréal began to experience economic recovery. Figure 6.4 shows that since 1994, annual GDP growth in Toronto has exceeded that of Montréal every single year.

Figure 6.4



Source: Conference Board of Canada

Montréal already lagged Toronto in terms of job creation and employment by the early 1970s. As can be seen in Table 6.1, unemployment levels in Montréal were well above those in Toronto at this time. And given the substantially higher economic activity rates[39], the Toronto economy was on the whole creating 20% more jobs per capita than Montréal's. The trajectory following this point shows a strong divergence through the early 1990s as Toronto's economy boomed and Montréal's stagnated. Following the recession of the early 1990s, however, Montréal's recovery appears to have been fairly strong, with growing participation rates and unemployment levels beginning to converge with Toronto. Export growth and FDI levels have also been high in Montréal since the mid 1990s, with employment in knowledge and technology intensive sectors (e.g. aerospace, biotech and pharmaceuticals, and ICT) growing fastest amongst all metropolitan areas in Canada (OECD, 2004).

Yet there is only limited evidence that this recent period is part of a trend of convergence of the Montréal and Toronto labour markets. Indeed, even during this period of robust growth in Montréal, the Toronto economy created more jobs. In the period from 1989 to 2004, Toronto created 848,000 net new jobs to Montréal's 417,000; since 1996 (following the last major recession in both cities), the figures are 600,000 and 320,000 respectively (Statistics Canada,

[39] "Economic activity" refers to labour force participation

1997; Statistics Canada, 2008). Over the last twenty years as a whole, the Toronto economy grew 45% faster than the Montréal economy, so that by 2007 it was 80% larger. Indeed, despite substantial recent growth in certain sectors, overall GDP in Montréal grew at only 90% of the national rate during the 1996 to 2005 period. According to recent research by the OECD (2004), much of the difference in GDP between the cities is explained by lower levels of labour force productivity in Montréal, which in turn is driven by lower levels of human capital in the population. Although lower educational attainment in Quebec has historical roots, Census data indicates the gap between Toronto and Montréal in the share of populations with university degrees has not narrowed over the 30 years. Toronto still enjoys a greater than 20% advantage over Montréal in the share of its adult population with a university degree (Statistics Canada, 2008). This is despite massive investments by the Quebec government that makes university education virtually free for its residents.

Quality of employment has also diverged in the two cities. Table 6.1 shows that in the 20 years since 1987, the gap in per capita disposal income between Toronto and Montréal grew from 32% to 41%. The gap in median gross weekly pay[40] between Toronto and Montréal grew from only 6% in 1971 to close to 17% by 1986, and this gap has not closed since. For average incomes, a similar 6% gap in 1971 rose to nearly 16% by 1986 and continued to rise to almost 22% by 2001.

Table 6.1[41]

		Montréal			**Toronto**			**Ratio: Toronto / Montréal**		
	Time period→	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial**	**Mid**	**End**
Output	GDP at basic prices (C$m) (1987; 2007)[42]	N/A	82,418	122,953	N/A	124,259	221,758	**N/A**	**1.51**	**1.80**
Employment	Employment ('000) (1981; 1991; 2006)	1,305	1,410	1,824	1,613	1,817	2,763	**1.24**	**1.29**	**1.51**
	Economic activity rate (%) (1976; 1991; 2007)[43]	59.5	65.6	67.4	65.1	70.4	69.1	**1.09**	**1.07**	**1.03**
	Unemployment (%) (1976; 1991;	8.0	12.6	7.0	5.9	9.6	6.8	**0.74**	**0.76**	**0.97**

[40] For full time male workers
[41] All data from Statistics Canada, various Census reports (1971, 1976, 1981, 1986, 1991, 1996, 2001, 2006) unless otherwise noted
[42] Source: Conference Board of Canada
[43] Source: Statistics Canada, Labour Force Survey

			Montréal			Toronto			Ratio: Toronto / Montréal		
		Time period→	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial (1970s)**	**Mid (1985-1990)**	**End (2000-2007)**	**Initial**	**Mid**	**End**
		2007)[44]									
Composition	**Employment**	Manufacturing jobs (1971; 1986,2001)	276,510	300,685	305,240	323,205	432,620	406,530	**1.17**	**1.44**	**1.33**
		FIRE jobs (1971; 1986,2001)	61,265	91,455	102,500	84,595	164,795	225,550	**1.38**	**1.80**	**2.20**
		Public sector jobs (1971; 1986,2001)	53,475	93,590	77,745	64,840	92,555	81,645	**1.21**	**0.99**	**1.05**
	Earnings and distribution	Median gross weekly pay – male, full time workers (C$) (1971; 1986; 2007)[45]	5,440	15,127	21,888	5,784	17,663	25,593	**1.06**	**1.17**	**1.17**
		Gross disposable income per capita (C$) (1987; 2007)	N/A	20,834	27,457	N/A	27,457	45,260	**N/A**	**1.32**	**1.41**
		Low income before tax (1981; 1991; 2001)	21.6	21.2	21.4	15.3	13.3	15.1	**0.71**	**0.63**	**0.71**

Whilst income inequality and poverty levels have been rising in Toronto in recent years, they are doing so at a similar rate in Montréal, suggesting that it may not be a direct consequence of Toronto's development model. Between 1980 and 2000, the ratio of average income of the top 10% to the bottom 10% of earners (a measure of relative poverty) in the Toronto CMA grew from 3.9 to 5.6; in Montréal it grew from 3.8 to 5.1, a difference of less than 10%. On measures of absolute poverty, Montréal continues to suffer from substantially higher levels than Toronto, with 21.4% of its CMA population classed as "low income before tax"[46] in 2000 versus only 15.1% in Toronto. In both cities, these figures are little changed from 1980. However, there is some evidence that rates have been rising more quickly within Toronto's urban core, particularly within the last decade (United Way of Greater Toronto and Canadian Council on Social Development, 2001; 2004).

[44] Ibid
[45] Ibid
[46] Based on low income cut-offs (LICOs) as defined by Statistics Canada, which are intended to identify the level of income at which a family must spend a greater portion of its income on the basics (food, clothing and shelter) than does the average family of similar size, within a similar community.

Finally, Table 6.1 shows that Toronto managed to achieve greater adjustment to its economic base over this period, whilst also maintaining a relatively robust manufacturing base. In the high value service sectors of finance, insurance, and real estate, Toronto grew its employment by 166% between 1971 and 2001, whilst Montréal achieved growth of only 67%; in fact Toronto's growth advantage over Montréal in this sector was actually much greater during the latter period (1986-2001) than the initial period (1971-1986), suggesting the city consolidated its advantage in the sector. But even in the manufacturing sector, Toronto added jobs at a rate more than double that of Montréal over the 30-year period. In the public sector, by contrast, Montréal created nearly 50% more jobs than Toronto over this period.

6.2.3. *Explanations for the divergence*

A range of hypotheses have been put forth to explain the divergent development paths of Montréal and Toronto, but none appear to have sufficient explanatory power on their own. One long-standing argument suggests that the westward shift of the economic centre of North America, the growth of the US auto industry in the Midwest, and the construction of the St. Lawrence Seaway combined to favour Toronto over Montréal at the heart of the Canadian economy (Faucher and Lamontagne, 1964). But this does not help explain the strong economic performance of Toronto in comparison to other Midwestern cities in North America and its robustness in the face of the declining American automotive industry, which ravaged nearby cities like Detroit. Another argument points to the concentration of federal research labs in Ontario as having given Toronto an advantage in developing a more technology-orientated economy (McRobert and Posgate, 1980). Yet few of these facilities are actually located in the Toronto CMA[47] and employment in the Toronto's Scientific Research and Development Services sector has actually grown three times more slowly than the national average over the past 15 years (Toronto Economic Development, 2003). Moreover, much of the argument for the resurgence of Montréal points to its relative outperformance over the rest of Canada in scientific and other knowledge intensive sectors.

Most attention has been paid to the structural differences in the metropolitan economies, in particular Montréal's greater specialisation in labour intensive sectors, which is seen to have

[47] Toronto CMA's location quotient (versus the national average) for the Scientific Research and Development Services sector was 0.65 in 2003 (Toronto Economic Development, 2003).

left the city more exposed to the fallout from post-Fordist industrial restructuring (c.f. Higgins, 1986; Coffey and Polése, 1999; Germain and Rose, 2000). Certainly, Montréal's relatively large employment in the textiles and clothing sector lends support to this hypothesis. On the other hand, the aerospace and pharmaceuticals sectors, usually highlighted as evidence of the knowledge sector-led resurgence in Montréal, were actually the largest and third largest employers respectively in the city's manufacturing sector way back in 1976 (Vinodrai, 2001). Moreover, as Table 6.2 shows, whilst the textiles and clothing sector was responsible for nearly 4,000 job losses in Montréal between 1970 and 2000, the same sector generated nearly 7,500 net new jobs in Toronto during this period. Recent research has also casts significant doubt on the importance of sectoral structure in explaining Montréal's relative economic performance. Coffey and Polèse (1999) argue that Montréal's broad sectoral structure is not significantly different from Toronto's, with the exception of having smaller and more slowly growing higher-order services sectors. And the OECD (2004) concludes that the productivity gap between Montréal and other OECD regions is driven not by sectoral structure, but by lower levels of human capital.

Similarly, Toronto's relative economic success in recent decades is often depicted as an historical accident, having been in the right place at the right time to benefit from US auto industry investment and Montréal's financial sector flight. But this ignores the fact that Toronto has continued to diversify its economy and has grown sectors like business services, life sciences, and tourism not simply relative to Montréal's but also faster than North American peer cities like New York, Washington, and Boston (Toronto Economic Development, 2000). Perhaps more striking, however, has been the robustness and diversity of the manufacturing sector in the city region. Whilst Montréal experienced a loss of nearly 40,000 manufacturing jobs between 1976 and 1997, Toronto added 70,000; indeed even in labour intensive manufacturing sectors Toronto managed to maintain a stable base of employment, whereas Montréal experienced 40% decline (Vinodrai, 2001). In key sectors like transport equipment, Toronto has defied the broader trend of decline in the North America's Midwest, more than doubling employment between 1971 and 2001.

Table 6.2

	Montréal				Toronto			
	1971	1991	2001	CAGR ’71-‘01	1971	1991	2001	CAGR ’71-‘01
Manufacturing (overall)	276,510	311,555	305,240	**0.3%**	323,205	355,340	406,530	**0.8%**
Textiles and clothing	55,920	63,625	52,046	**-0.2%**	20,185	24,760	27,595	**1.0%**
Transport equipment	19,685	29,150	37,235	**2.1%**	29,920	48,625	61,255	**2.4%**

Thus whilst physical geography and sectoral structure certainly played a role in the diverging development paths of Montréal and Toronto, these explanations do not tell the full story. Institutions played an important mediating role in both cities, shaping the responses to both exogenous and endogenous changes in the economic, social, and political environment. Specifically we argue that Montréal’s institutions allowed community cleavages to affect societal problem solving. In doing so, it hindered the processes of economic and social adjustment, resulting in stagnation. In contrast, in Toronto, the institutional environment supported the flexible evolution of the economy, where compromise over distributional conflicts smoothed, but did not hold up processes of adjustment.

6.3 UNDERSTANDING COMMUNITY AND SOCIETY IN MONTRÉAL AND TORONTO

This section analyses the structure and function of community and society in Montréal and Toronto, as well as the underlying social structure – i.e. the patterns of dominant and minority groups or communities – which tends to influence the patterns of bonding and bridging that emerge. Table 6.3 provides a summary characterisation of community and society in the two cities, covering the beginning of the period under review (early 1970s) as well as the changes that have taken place by the end of the period (mid 2000s).

We show that in Montréal, a culture of familism combined with a cleavage between and the Francophone and Anglophone communities resulted in an environment of weak community associationalism, and in particular weak bridging. This was offset in part by strong state support for constructing community. However, the state overpowered community and co-opted it, restricting its potential for self mobilisation. Moreover, societal institutions themselves came to be dominated by the state which in turn was captured by the interests of the Francophone community. Toronto, by contrast, exhibits a strong capacity for associationalism, particularly of the bridging variety. This is supported by transparent and predictable societal institutions. At the same time, the relative passivity of both the business community and the state limits the scale of initiatives arising from community.

Table 6.3

		Community	**Society**
Montréal	At beginning of period	• Strong bonding communities –but fractured along ethno-linguistic lines • Localist and familist networks • Weak bridging networks (within and outside the city) • Relatively low levels of individual participation / activism at citywide level; • Well organised and active community groups at local level; however, strong relationship (co-opted?) with the state • Well organised and activist community groups	• Communally- controlled institutions • Activist state – top-down management of economy and society • Substantial support to structure community representation
	Changes by end of period	• Increased bridging across Anglo and French communities (but new divides with growing immigrant communities) • Slowly evolving leadership and participation from the business community • Ongoing development of 'independent" community groups (*secteur communautaire autonome*)	• Continued strong state coordination • Continued support for community • Increasing fragmentation of municipal governance
Toronto	At beginning of period	• Relatively atomistic community – limited local-level bonding • Substantial participation (membership / volunteering / donating) and issue-based activism • Overlapping networks with substantial bridging across and beyond city – instrumental networks • Substantial coalition formation	• Transparent governance framework • Relatively hands-off and weak local state (City government) • History of pragmatism and consensus politics
	Changes by end of period	• Substantial increase in leadership role of private sector (business)	• Breakdown of consensus politics • Declining state support for community groups

6.3.1. *Montréal*

The most important factor shaping social structure in Montréal is the cultural-linguistic cleavage between the Francophone and Anglophone communities. This fracture set the stage for a conflict that spilled over from community to affect virtually all political, social, cultural, and economic institutions in the province of Quebec. At the beginning of the 1970s, a clear French demographic majority existed in the Montréal CMA: 63% of residents defined themselves as French 'mother tongue' and 61% of French origin in the 1971 census (Statistics Canada, 1972). However, it coexisted with a fairly large Anglophone minority, and a more fragmented base of immigrant communities (23% of residents were English 'mother tongue' and 16% were of British, Irish, or Scottish origin in the 1971 census). But the economic power of the Anglophone population was significantly greater than its demographic size. At the beginning of the 1960s, virtually all the important economic institutions in Montréal were under the control of Anglophones, including the largest banks, heavy industry, and large commercial enterprises; and English was the dominant language of commerce (Levine, 1990). By contrast, Francophone businesses consisted mainly of family-owned SMEs operating on a small scale in local and regional markets. The result of this ethno-linguistic division of labour was that average incomes of Anglophones in 1961 was 50% higher than that of Francophones (Polese and Shearmur, 2004), clearly an unsustainable level of inequality given the demographic profile of the city.

Both communities were characterised by tight bonding and very limited bridging. The Anglophone community was less territorially rooted than the Quebecois community, with elite networks that operated not only around the province, but were also linked closely to networks in Toronto and elsewhere in Canada. Despite strong links between the Anglophones the Quebecois political class[48], the British-origin Anglophone elites had little interaction with the Francophone community, preferring to live segregated lives in "gilded ghettos" (Levine, 1990, p.15). Indeed there was no Anglophone community as such, rather separate British Protestant, Irish, Scottish, Italian, Jewish, and other communities. It was only when language became a political question that these groups forged a common identity (Levin, 1990).

[48] A pattern of elite accommodation existed between the Anglophone business elite and the Quebec provincial political elite throughout much of the 20th century, up until the Quiet Revolution. Quebec Premiers sat on the boards of Anglophone corporations, and the position of provincial treasurer was generally held by an Anglophone (McRobert and Posgate, 1980; Levin, 1990)

Traditional Quebecois community had much in common with Toennies' (1887) *gemeinschaft*, with little scope for individualism. Whilst the Quiet Revolution of the 1960s and 1970s signalled an expansion of the bounds of Quebecois community from the narrow confines of family and parish (Gelinas, 1973), it did little to change the fundamental modes of relation. Individual and group identity and expression remained subsumed on behalf of the 'greater good' (now with French-Canadian society replacing the family). And paternalism (now with the state replacing the clergy) rather than self-organisation and compromise remained the dominant mode of societal problem solving (Langlois et al, 1992). The city of Montréal, with its relatively cosmopolitan society and large Anglophone population, always differed somewhat from that of the more rurally rooted Quebecois community. Moreover, the emergence of a Francophone middle class and entrepreneurial capitalist class (Paul, 2004) beginning in the 1980s and 1990s, much of which was based in Montréal, heralded the beginnings of a change toward greater individual autonomy. Yet these traditional community factors continued to play an important role in shaping relations in the city throughout most of the last four decades.

This had important implications for the nature of the modern societal institutions governing economic and social life in Montréal, most of which were developed during the 1960s when the state took over the provision of social services that had previously been the purview of the Quebec Catholic Church (Langlois et al, 1992; personal interview, J.M. Fontan, 19 June 2007). During the premiership of Jean Lesage (1960-66), the provincial budget grew more than 20% annually, from C$600 million to over C$2 billion (Laroque, 1973). Since then, the state has largely dominated societal institutions. To put this into perspective on a national scale, provincial and local government spending per capita in Quebec in 2007 amounted to C$12,497, nearly 20% above the levels in Ontario and 30% above the Canadian average (Statistics Canada, 2008). This strong presence of the state has been a critical factor in shaping the institutional environment of Montréal for most of the past half century. It has been successful in supporting the relatively radical convergence of social and economic outcomes between the Anglophone and Francophone communities.

But the state dominance of societal institutions in Quebec also posed a severe risk to the transparency and objectivity of those institutions, due to the potential for their politicization.

With the political landscape relatively balanced across party lines both at the city and provincial level, the community cleavages described previously were allowed to spill over into party politics. Policies to promote French language and culture in the 1960s and to support job creation, education, and economic opportunities for Francophones all served to promote the group interests of the Francophone community over the Anglophones (Uslaner, 1997). According to Levine (1990, p.38-40) "... the logic of the Quiet Revolution inexorably led to a movement to dislodge the Anglophone elite and reconquer Montréal as the Metropole for French-speaking Quebec." The subsequent political success of the Parti Quebecois (PQ) at a provincial level in 1976 brought this process to its culmination, the effective capture of state institutions by the Francophone nationalist community. The political power obtained by the nationalists was used to cement substantial changes to the structure and functioning not just of the state but of wider societal institutions that came to rely on the state for funding and influence. Most important were the laws that resulted in French being instituted as the language of government, commerce, and education. But beyond this, further economic nationalisations (including threats of expropriation) and plans for sovereignty (i.e. the 1980 referendum) were critical in entrenching communitarian politics in Montréal.

The result was a shift in control of economic institutions from the Anglophone business elite to the state, where it was managed by a newly-established technocratic class on behalf of the Francophone community. For Francophones, the state represented the new manifestation of the paternalistic tradition and the protector and overseer of the promise to be "*Maître chez-nous*"[49] against the province's Anglophone elite and the (Anglophone) federal government. Ironically, the Anglophone community that remained Montréal also looked to the state as its only protection against Francophone dominance (Uslaner, 1997). This in part set the stage for the intensification of a already statist model of governance.

Community, or 'civil society', had a central role in the Quebecois development model, which encouraged civic participation as part of the Francophone nation building project. The province has a strong history of community organisation since the 1960s, particularly in the form of cooperatives, labour unions, and social enterprises. As a result, community organisation was

[49] "Masters of our own house" – the campaign slogan of the Quebec Liberal Party under Jean Lesage in the 1962 election; it came to represent the Quiet Revolution and the desire of French Quebecois to have greater control of their own socio-economic fate within (or outside) the Canadian federation.

financially supported during the 1970s and 1980s. During the 1990s, the provincial government recommitted and even strengthened its support for the community sector, at a time when funding for civil society was being cut back in the rest of Canada. More than 60% of the operating budgets of non-profit and voluntary organisations are funded by the government across Quebec, compared to only 45% in Ontario (Imagine Canada, 2006). A wide range of community organisations exist in Montréal, and in recent years there have been many innovative examples in Montréal of direct participation of citizens, including the Montréal Citizens Summit, the creation in 2003 of the Montréal Charter of Citizen Rights and Responsibilities (the first of its kind in North America), participatory budgeting in Plateau Mont-Royal, and the development of the social enterprise sector throughout the city.

Partly as a consequence of having taken over historical parish-based structures of the Catholic Church, the state follows a highly spatial approach to organising community in Montréal. Institutionally, *Corporations de developpement economique communautaire* (or CDECs) are the cornerstone of community economic development in the city. Montréal's seven CDECs, the first three of which were formed in old industrial districts in the mid-1980s, were given funding from the city and the province in 1990 and handed responsibility for local *Tables de concertation* (community roundtables), integration of local residents into the labour market, and the creation of jobs by supporting local businesses (Fontan et al, 2003). Through the process of *concertation*, CDECs are designed to provide wide stakeholder participation, comprising representatives from community organisations, unions, business and the public sector (Morin, 1994-1995). This combination of funding and institutional structuring offers several potential benefits for social stability: it offers voice to groups who would otherwise remain unheard on issues of social and economic development; it promotes a degree of bridging across groups (at least within individual neighbourhood structures); and it encourages groups to seek compromise on issues that demand local problem solving.

However, the state's intervention in the community sector has hardly been a light touch of facilitation. It has long been argued that the state has actively institutionalised, or "co-opted", community (Langlois et al, 1992; Germain, 2000; LaForest and Phillips, 2001; Fontan et al, 2003). One prominent Anglophone journalist in the city described the extent and impact of this: "Heritage groups, environmental groups, poverty groups, etc... they all are beholden to the state and therefore are all very tame" (personal interview, H. Aubin, 3 July, 2007). The degree to which the community sector has been institutionalised is evidenced by the fact that, in more recent years, there has emerged a so-called *secteur communautaire autonome* (autonomous community sector), defined by its lack of financial and institutional reliance on the state. The price to pay for government funding for the CDECs and many civil society organisations has been to give up their role as community agenda-setters and mobilisers and become a local delivery point for provincially authorised social services. And although the concertation process is viewed positively from the standpoint of local democracy, in practice it is largely a forum to react to initiatives of the government or property developers rather than to generate true bottom-up development.

As a result community in Montréal has been an effective forum for social solidarity and social services delivery, but has been weaker in terms of productive or proactive engagement on economic development matters. Moreover, it has done little to bridge Anglophone and Francophone communities. Indeed, its spatial organisation, in a residentially segregated city may well have accommodated a 'separate peace' between the communities. Langlois et al (1992) find that since the early 1980s there has been a major decline across Quebec of organisations "promoting group interest" as opposed to those with social and cultural aims. Thus community groups may play an important part in social life in the city, but are perhaps less effective at achieving instrumental ends. Moreover, there is also evidence that Montréal's community groups may be stronger at supporting their members in 'getting by' than in 'getting ahead'. Evidence from an assessment of community organisations listed in the Canadian online telephone directory shows that Montréal has substantially more "charitable and community organizations" versus Toronto and more (on a per capita basis) "social services organizations", but substantially less business-related organisations[50].

Another consequence of the heavy reliance of civil society on the state is the declining potential for smaller groups to have direct voice on economic and social issues. The Quebec state actively encourages the formation of 'peak associations' (Montpetit, 2003), wherein

[50] Montréal has listed 181 "charitable and community organizations" to Toronto's 72 and 440 "social services organizations" to Toronto's 483. Across the four categories of: "boards of trade", "chambers of commerce", "business and trade organizations", and "cooperative organizations", Montréal has only 63 listed organisations to Toronto's 119 (source : http://www.canada411.ca/, accessed 21 February 2008 at 14:14)

certain groups are assigned near exclusive access to 'negotiate' on behalf of wider interests. In such a corporatist structure, small groups are forced to get larger or affiliate themselves in a vertical dependent relationship in order to gain access to the state. For minority groups within the city, particularly recent immigrants, this is a difficult prospect.

The ethnolinguistic cleavage at the community level, combined with a partisan, and clientelist state has also contributed to limiting the effectiveness of the business community as an actor within local socioeconomic processes. As far back as the Picard Report (1986), weak business representation and poor organising capacity has been identified as an important barrier to development in the city region. Until recent years, the French and English business communities were almost completely disconnected, even operating separate Chambers of Commerce until 1992. Links between the business community and universities was also highly Balkanised. Indeed, it was in part the strong links between business and the traditional Anglophone universities that perpetuated a system which favoured English speakers in the labour market (Raynauld, 1973), a major factor contributing to the imposition of language laws. At the beginning of the 1970s there were no mixed boards in any of the large companies (Raynauld, 1973) in Montréal. And as the Francophone business community emerged in the 1970s and 1980s, Montréal's boardrooms remained largely homogenous, whilst becoming increasingly cut off from business networks outside the province (O'Hagan and Green, 2002).

As has been the case with civil society, an institutionalised structure – through the *patronat* (employers associations) – exists to channel dialogue between the business community and the state (Graefe, 2004) in Quebec. Outside of the small elite of 'Quebec Inc.' technocrats and *nouveaux capitalistes* (Paul, 2004), the business community in Montréal was described by one interviewee as a *"petit bourgeoisie"* (personal interview, J. Prince, 9 August 2007), whose relationship with the state is generally that of client to patron. The business community's dependency on the state is underscored by the fact that many of the most important business associations in Montréal have been created for the express purpose of negotiating with government. For example, in the multimedia cluster, the merger of CESAM and FIM in 2000 was described as being "driven by government wish to negotiate with just one association" (Tremblay and Rousseau, 2005).

As a result of fractured community hindering self mobilisation and a weak position in relation to the state, collective action within the business community has been rare and, as has been the case with civil society in Montréal, it has tended to be reactive rather than agenda setting. The most prominent examples of business community action during the 1970s and 1980s – e.g. the fights against the closure of Dorval Airport and McGill College Avenue – involved responses to government initiated projects rather than initiatives or direct participation in the development agenda. Whilst it has played a more prominent role in more recent years on projects such as the redevelopment of the old port, *Cité Multimédia*, *Quartier International de Montréal*, and the establishment of Montréal International, government remained the initiator, and ultimately the financer in all these cases. Moreover, these examples underscore the business community's limited scope of participation in economic and social development, focusing primarily on property development and investment attraction. Although given an institutionalised role in community economic development through the local *Tables de Concertation*, the business sector on the whole has tended to remain disengaged from both local and metropolitan-level socioeconomic issues.

Finally, even after the recent amalgamation process, the metropolitan area is plagued by substantial fragmentation in responsibility and delivery. The *Communauté métropolitaine de Montréal* (CMM) governs 82 municipalities with population of 3.6 million. In contrast, even before its own recent municipal mergers, Toronto had only five municipalities presiding over 2.5 million people. Thus the scale of municipalities in the Montréal city-region is more than ten times smaller than that of Toronto. This is compounded by the imposition of provincially driven institutions, most of which operate at different spatial scales, resulting in a "tangled muddle of institutions" (OECD, 2004) with overlapping mandates, poor coordination and local territorial competition amongst economic development initiatives. Reliance on funding and institutional structuring through the province has essentially denuded the city as a serious actor in the development process. One interview noted that the mayor "spends 80% of his time trying to get money from the province" (personal interview, M. Polése, 4 July 2007). And control of funding from the province exacerbates the problems of coordination and confrontation at the local level.

Historical community cleavages have eased substantially in the years following the 1995 sovereignty referendum. Staunch separatists and "angry Anglophones" (personal interview, R. Pelletier, 4 July 2007) have both been replaced with more moderate voices within the mainstream discourse of their communities. However, bridging remains limited, and to some degree new gaps have opened up with the growing immigrant community. (Séguin and Germain, 2000, p.49) note that whilst a "code of civility" prevents conflict amongst groups, there remains little practical interaction which could truly integrate groups, lead to sustainable problem solving, and facilitate positive societal-level outcomes.

Private sector leadership is also beginning to emerge through charities such as the McConnell Foundation, the more recently established Chagnon Foundation, as well as traditional community groups like United Way (personal interview, J.M. Fontan, 19 June 2007). Finally, the new City of Montréal launched a major participative development initiative, the City Summit 2002, which aimed to establish the strategic economic, social, and cultural priorities for the post-amalgamation city. The Summit, and parallel developments promoting community sector leadership, is indicative of a slowly changing structure of engagement in Montréal. The emergence of an equal partnership approach between the city and civil society as well as the business community is, however, likely to take some time. One interviewee made reference to Toronto's City Summit Alliance, stating it was "five years ahead of where we are" (personal interview, S. Bouffard, 29 June 2007).

6.3.2. *Toronto*

Although community, particularly in a spatial sense, is much less a formal actor in development processes in Toronto than is the case in Montréal, the city enjoys relatively high levels of citizen participation and has a history of local activism. Toronto can perhaps be best described as a networked community, with relatively weak identity-based bonding, but strong capacity for bridging. Its model of differs substantially from that of Montréal, preferring a market coordinated approach, forming coalitions on an ad hoc basis for instrumental ends. The state is largely absent from the process: virtually no institutional structures are put in place by government to facilitate community voice and funding is limited. At the same time, private actors, including the business community and civil society, have shown an ability to self-mobilise in response to external events. The result is a relatively fluid community, where coalitions form and dissolve on an ongoing basis, supported by transparent, but limited society.

Toronto's social structure differed substantially from Montréal's at the beginning of this period, with a clear Anglophone majority and a highly fragmented minority. In terms of ethnicity, 57% of the population had an Anglo-Saxon[51] heritage according to the 1971 census (Statistics Canada, 1972); however, only 3.5% had a French heritage, with the remainder made up of tens of immigrant groups, none of which comprised more than a few percent of the overall population. The linguistic structure shows even more clearly the Anglophone dominance: 70% of residents declared English as their mother tongue in the 1971 census and nearly 90% spoke English as their primary language at home, with less than 1% speaking primarily French.

The dominant Anglo majority has been complemented by several waves of European immigrants – Italian, Portuguese, and Greek – who, over time, integrated with the broader society. These were followed by large (mainly Anglophone) ethnic communities from throughout the Caribbean. In more recent years, immigrant groups have arrived from a far wider variety of countries, with particularly large communities from China, Vietnam, and South Asia. In contrast to Montréal, however, all immigrant groups have had one clear language to adopt in order to participate in economic, social, and political life. Moreover, the lack of a strong and contested ethnic identity amongst Canadian-born residents in Toronto makes the arrival of immigrants less of a perceived threat to the identity of the wider society.

Thus the social structure in Toronto minimises the likelihood of it experiencing the same cleavages that make ethnic and linguistic identity an important social battleground in Montréal. The absence of strong identity-based groups has probably been beneficial to facilitating integration. As one interviewee put it: "...the great thing about a lack of identity is that anyone can fit in" (personal interview, A. Breton, 9 July 2007). As the issue of integration becomes increasingly prioritised within discourse and policy in Toronto, there is some evidence that the immigrant identity is becoming a more important mobilising force. Examples include the growing prominence of activist groups like No One is Illegal, the Ontario Coalition for Social

[51] English, Scottish, Welsh, or Irish

Justice, and the Ontario Coalition Against Poverty (the latter two for whom the immigration agenda is becoming increasingly significant), as well as the large mainstream participation in the Toronto Regional Immigrant Employment Council (TRIEC).

Associationalism in Toronto has historically been of the 'weak tie' variety. In line with this, the nature of community organisations in the city tended to be fairly instrumentalist in nature. As noted previously, whilst Montréal may have more community groups than Toronto overall, particularly in the areas of "charitable and community organizations" and "religious organizations", Toronto has substantially more in the categories of "boards of trade", "chambers of commerce", "business and trade organizations", and "cooperative organizations". In recent years the increasing pace of immigration may be starting to influence the underlying patterns of bonding. The relative share of immigrants has now reached a possible tipping point of greater than 50% of the population, up from only 30% in 1990. Moreover, the share of recent immigrant groups (specifically the share of these coming from visible minority groups) has risen substantially. This may lead to a shift toward greater identity based bonding, as immigrant communities tend to turn inwards during the first generation. However, even within the immigrant community there is evidence of strong instrumental association, particularly through business associations. The Toronto Board of Trade's *Directory of International Investment and Trade Services for the Toronto Region* (2006) lists more than 40 ethnic business chambers including the Association of Canadian Chinese Entrepreneurs, the Association of Polish Engineers, the Little Italy Business Improvement District, and the Iranian Business and Professional Association.

With the exception of ratepayers associations (which tend to be strong and vocal in planning processes) and a few grassroots neighbourhood initiatives, community groups in Toronto tend to be organised around issues (e.g., housing, education, immigrant integration, etc.) and operate at the city-level rather than within specific neighbourhoods. Whilst this may limit their effectiveness in supporting neighbourhood-based economic development it does mean they have more potential to engage on a citywide level, and thus influence metropolitan economic and social development policy. This disengagement with place also allows communities to bridge outside of their territory substantially more than do similar groups in Montréal.

This organising structure may also contribute to Toronto's higher propensity for bridging across groups. Whilst Toronto lacks the formal institutional structures for bridging that exist in Montréal, coalition-building appears to be commonplace; one interviewee noted the "strong coalition impulse in Anglo-Canadian public life" (personal interview, J. Conway, 20 June 2007). Some notable examples of this include: C4LD, a grassroots movement led by former Mayor John Sewell that came together to oppose the city's amalgamation in the late 1980s; New Voices for the New City, an alternative coalition of 65 mainly immigrant organisations (including Canadian Arab Association, the Chinese Canadian National Council, the Ethiopian Association of Toronto, the Jamaican Canadian Association, the Canadian Sri Lankan Association, the Somali Canadian Association, and the Vietnamese Association of Toronto, as well as a number of women's organisations and unions [Siemiatycki et al, 2001]) that also joined together to oppose the amalgamation; The Ontario Coalition for Social Justice, a network of more than 50 organisations (representing anti-poverty, labour, women, youth, immigrants, churches, and other communities) to promote issues of economic and social justice; Fair Deal for our City, a coalition of community, environmental, labour and social justice groups that is pressing for greater financial support to the city from provincial government; and the Toronto City Summit Alliance, a social and economic development coalition formed by business and community leaders. Indicative of the networking culture in Toronto is the fact that many of the key actors in the city see their role as one of facilitating bridging and coalition-building amongst stakeholder groups. For example, the City of Toronto Economic Development stated their role as one of: "... bringing people together to get this critical mass" (personal interview, R. McLean, 9 July 2007); the Toronto Community Foundation described its focus on: "convening...connecting people with others to work together" (personal interview, R. Morrison, 10 July 2007); and the Toronto City Summit Alliance saw themselves as a "... hub for a lot of networks" (personal interview , J. Deans, 14 June 2007).

Toronto community groups also have a substantially different relationship with the state than do those in Montréal. Active financial and organising support for youth groups in the 1960s helped build a strong network of local community agencies in the 1970s and 1980s (personal interview, J. Sewell, 6 July 2007). City government recognised the role of these groups, although for the most part community groups remained only loosely organised within formal institutional structures. Partnership between community groups and the state peaked in the early 1990s, when the provincial government experimented with associative governance. This was short-lived, however, as the Tory government elected under Mike Harris in 1995 reversed the policy which had devolved executive decision-making authority to representative interests, and dissolved the bodies set up to bring together government and civil society (Bradford, 1998). Along with dismantling associative governance came deep cutbacks in federal and provincial funding for civil society groups and a shift of funding from a multi-year, operational structure to a project-based one. Whilst community groups in Montréal were largely shielded from these changes as a result of Quebec government policies (LaForest and Phillips, 2001), the impact on civil society in Toronto was substantial. Large, established groups like the Social Planning Council, which played an important role in bridging across communities, were forced to downsize their organisations and scope of activities. Smaller groups, which had little capacity to manage the new funding and monitoring environment, suffered worse. The longer term impact of these changes is likely to be seen not only in the decreasing ability of community groups to deliver services, but in making compromise and problem solving more difficult to achieve. Indeed, there is already evidence of increasing marginalisation of many civil society groups and the return to a more confrontational, direct-action oriented civil society (personal interview, J. Conway, 20 June 2007).

The relative ease with which the Toronto economy flourished in the decades following the second World War led to a culture of passivity on the part of business and government, leaving them both relatively weak in terms of organising to address economic and social development issues. Neither had to fight for investment, development, or profits, and neither had to make any serious compromises to satisfy heterogeneous preferences of communities in the city. Several interviewees pointed out the lack of a "burning platform" forcing the city to react (personal interviews, S. Cheasley, 3 July 2007; W. Stewart, 6 July 2007; K. Campbell, 10 July 2007). Although the typical property-driven boosterism common in most North American cities in the post-war era was absent Toronto (personal interview, M. Wright, 10 July 2007), a form of business and government accommodation did exist in the city. Until the economic downturn of the early 1990s, there was little compulsion for the business community to change the status quo, as Toronto's hegemonic position in Canada and its ongoing growth seemed unquestioned. And although the early 1990s recession did shock the business community and government into some action – it led, for example, regional municipalities to form the Greater

Toronto Marketing Alliance, the city-region investment attraction agency – many believe that the culture of passivity and accommodation has continued to constrain action in the city. As one interviewee put it: "the good burghers of Toronto are holding back development... they don't want to rock the boat" (personal interview, V. Fernando, 7 July 2007).

For most of the past thirty years, the main business groups in Toronto were organisations like the Toronto Board of Trade, the Business Council, and the Council of CEOs, whose activities were limited to lobbying with regard to broad macro conditions. Large corporations in the city, particularly from the banking and financial community, were disengaged from public debate on the state and direction of the city. As one interviewee from a major bank noted, on economic issues they limited themselves to telling the city to "lower taxes and reduce your debt" and on social issues "we simply made charitable contributions" (personal interview, D. Burleton, 9 July 2007).

Perhaps as a result, bridging within the business community and between the business community and civil society has traditionally been weak. Until very recently, separate Chambers of Commerce existed for Toronto, Entobicoke, and North York (all now part of the 'new city' of Metropolitan Toronto); they still do for municipalities in the Greater Toronto area like Mississauga, Oakville, and Brampton. Finally, a wide range of ethnic business chambers exist in Toronto (e.g. Chinese, Lebanese, etc), which for the most part act independently on behalf of their community. Within and between sectors, the business community has been described as "Balkanized" (personal interview, T. Egan, 20 June 2007). Most sectoral initiatives have tended to be small and have not been successful in sustaining any large-scale industry mobilisation. In the ICT cluster for example, a recent study estimated there were about 35 different professional organisations in the Toronto GTA, but not one that bridged across the city-region (Graytek Management Inc., 2004). One of the factors holding back widespread business engagement, particularly at a sectoral level, has been the lack of funding from government for projects around which the community can engage. In contrast to the situation in Montréal, cooperative sectoral or cluster projects in Toronto tend to be largely reliant on self mobilisation and self funding. As a result, few organisations and individuals have the time and resources to initiate and sustain them.

However, the 2000s, particularly the past five years, has seen a sea change in engagement by the business community in Toronto. This has happened on two fronts: internally, through sectoral and cluster associations; and externally, through engagement in issues of local development. Amongst the many cluster initiatives have been the Toronto Financial Services Alliance, the Toronto Biotechnology Initiative, the Toronto Regional Research Alliance, Fashion Liaison Industry Council, Design Industry Advisory Council, and the Entertainment and Creative Cluster Partnerships. Although levels of engagement have varied and it is too early to say whether any of them will have a sustainable impact, they may indicate a newly emerging "associative capacity" in the business community (personal interview, D. Wolfe, 21 June 2007). The business community and wider civil society also appears to be taking advantage of the associative capacity of Torontonians to address growing socioeconomic challenges in the city. In this respect, the most important development has been the emergence of the Toronto City Summit Alliance (TCSA) in 2003. TCSA is a coalition of more than 50 civic leaders in the city, funded and run by the business community with increasing involvement from major community groups. In the short time since its launch, it has initiated major projects addressing issues ranging from tourism development and innovation to immigrant integration, affordable housing, and income security.

Finally, philanthropic groups, relying on private funding, also appear to be taking on a more pronounced role in civil society, in the vacuum created by declining state funding. Organisations like the United Way, St Christopher's House, the Maytree Foundation, and the Toronto Community Foundation have in recent years initiated many of their own high profile efforts to shape policy direction, and have begun to work closely with other private actors in the city. One example is the Vital Signs initiative, a "community report card" (Toronto Community Foundation, 2007) measuring the city's ongoing performance on a range of social and economic indicators. This project has become highly influential in local policy discussions, and has been rolled out across a number of other cities in Canada. Most of the large philanthropic organisations, particularly through civic leaders such as Alan Broadbent of the Maytree Foundation and Martin Connell of the Toronto Community Foundation have also played important roles in establishing and rolling out key initiatives of the Toronto City Summit Alliance.

Individuals and communities in Toronto have historically operated in an environment of transparent societal institutions and of predictable, consensus based politics. Indeed, until the late 1980s or early 1990s, the political environment in Toronto offered little in the way of distributional conflict. The urban reform movement, a coalition of the progressive middle class and more radical civil society groups (Donald, 2005) dominated the city's politics from the 1970s into the 1990s. It operated largely in an environment of accommodation by all the main political parties based on a broadly shared ideology that supported social redistribution. Similar consensus politics existed at the provincial level, where a stable three-party system prevailed since 1945.

The main policy divide existed between the city and its suburbs, particularly given the urban reform movement's anti-development agenda in Toronto. Mayors like Mel Lastman in North York and Hazel McCallian in Mississauga ran suburban "growth machines" (Molotch, 1976) of low tax and rapid development, luring investment away from the city. The 1998 amalgamation of municipalities into the 'new city' of Toronto brought a polarised political landscape to the city for the first time in decades. This break from consensus politics was mirrored at the provincial level, where the newly elected Mike Harris took the Progressive Conservatives sharply to the right with his neo-liberal "Common Sense Revolution" political platform. With compromise and consensus no longer the rule, Toronto's societal institutions have, in the last decade, become more inclined to relatively rapid, politically-induced changes

Yet the limited level of intervention of provincial government and the narrow scope of participation of city government, in any case restricts the potential impact of politics on metropolitan economic development. In the Toronto region, where economic growth has been strong and economic crises rare over the past 50 years, federal and provincial policy toward economic growth in the city has been decidedly *laissez faire*. Coordinated activity amongst city, provincial, and federal governments is rare; the Intergovernmental Committee for Social and Labour Force Development (ICE) set up in 1997 and the Toronto Waterfront Revitalization Corporation established in 1999 represent the only two significant tripartite activities in the city.

Finally, the city itself (like most cities in the Canadian system) is restricted in its scope of activities by inadequate financial resources and a lack of significant revenue-raising power. With limited funding, structure, and capacity for supporting economic development, the city government has historically been considered irrelevant by the business community. Reflecting these realities, the city has increasingly shifted toward a facilitating role in economic development, aiming to support the development of networks across companies, sectors, and communities.

Thus, in contrast to the situation in Montréal, communities in Toronto are responsible for their own mobilisation, organisation, maintenance, and must develop their own channels to advance their agenda. The vacuum left by the state in Toronto has traditionally been filled by self-organising coalitions. Community groups in Toronto, accustomed to operating without a long-term funding base, have been adept at bridging, combining and recombining to form coalitions on an issue by issue basis, whether for short-term political processes (e.g. C4LD and New Voices for the New City, which formed to oppose amalgamation and shape the post-amalgamation political landscape) or ongoing policy efforts (e.g. The Ontario Coalition for Social Justice, which emerged in response to the policy agenda of the Progressive Conservatives' "Common Sense Revolution" in 1995).

6.4 THE CONSEQUENCES FOR DYNAMISM AND ADJUSTMENT

This section assesses the impacts of the different models of community and society in Montréal and Toronto, their impacts on economic institutions, and the consequences for economic dynamism and adaptability. We argue that whilst the existence of community groups as a permanent feature of local life in Montréal provides the potential for effective local response, the fractured and unequal nature of communities restricts their potential for bridging. Moreover, the dominance of society in the form of the state has taken the initiative away from community and restricted its *de facto* mobilising potential. As a result Montréal has been relatively effective at maintaining social stability, using community as a support mechanism to mitigate the negative consequences of external change at the micro level, a form of 'community as getting by'. But at a macro level, the weaknesses of community vis-à-vis the state, and the control of the societal institutions by one community has facilitated a development model that was redistributive rather than productive in nature, supporting low value-adding sectors, stifling innovation, and slowing the process of economic adjustment. This contributed to the relative stagnation experienced in Montréal from the 1970s through the 1990s.

Toronto, by contrast, lacks the same permanently mobilised community on the ground due to weaker identity-based bonding and the absence of institutionalised state support. As a result, it is less able than Montréal to provide a reactive salve to individuals and groups. On the other hand the transparency and flexibility of society in Toronto combined with the strong associative capacity and potential for bridging opens up the possibilities for new and innovative forms of collective action in response to external events, initiated by communities and civic leaders rather than the state. Toronto may have more trouble recognising and agreeing the issues that call for collective response than does Montréal, due to more fragmented distribution of preferences and less top-down agenda setting by the state. But the heterogeneous approaches allow for maximum trial, facilitating innovation. And an ongoing process of compromise and coalition formation promotes adaptive responses.

6.4.1. Montréal

In Montréal, the institutional arrangements contributed to the city's failure to adapt its economy to changing economic circumstances, and thereby losing ground to Toronto. At the root of this is the fact that economic institutions in the city have historically been controlled by and on behalf of specific communities, exacerbated by a statist development model. The result has been ongoing patterns of exclusion and distrust, hindering broad participation in economic life and leading to a fragmented approach to economic, social, and political life in the city. Up until at least the 1960s, it was the Quebecois community which was by and large excluded from economic life, with capital, industry, and the most important tertiary educational institutions controlled by the Anglophone population. Following the Quiet Revolution, however, it was the Anglophone community that began to experience exclusion. Whilst the sweeping changes brought in during the 1970s may have been both desirable and necessary, their impact on economy and society in Montréal was substantial. For the non-French speaking population of the city, the rules of the game changed, with access to government services, education, and influence on the political agenda restricted, and the risk of separation from Canada suddenly very real. The economically powerful Anglophone elite no longer had confidence to invest (and with it went the confidence of many international investors). Young Anglophones, who at the time were substantially more highly educated than their Francophone counterparts on average, also abandoned the city in droves. The result was a rapid and massive diversion of labour and capital from Montréal. In the five years from 1976, the Anglophone population of Montréal declined by 83,000, or some 14% (Levine, 1990, p.120). The share of stock transactions taking place on the Montréal Exchange declined from 35.8% in 1971 to 11.9% by 1981 (Levine 1990, p. 187). But it also had a long term institutional impact on the city. The readiness of the Anglophone elite to abandon Montréal for Toronto, encapsulated in the French nationalist slogan "101 or the 401"[52], contributed to strengthen the Francophone community's control over not Montréal's social and cultural institutions but also its economic ones. It also helped to justify policies that gave little regard for cross-community compromise. Whilst tensions across communities have moderated since the mid 1990s, access to societal institutions remains unequal or at least segregated. Although British-origin Anglophones suffered from exclusion over the past three decades, it is Montréal's large immigrant population, which comprises some 20.6% of the CMA population who have faced the most significant consequences.

Exclusion works to restrict economic opportunity in several ways, most importantly through policies and practices designed to support and protect the Francophone majority. For example, Québec's provincial regulations limit immigrant workers' access to construction jobs, and the strength and importance of union membership in the manufacturing sector acts as a restraint on the potential of immigrants to access employment opportunities. In addition the French language requirement acts as a barrier to immigrants obtaining work in the public sector, which in 1996 was responsible for nearly 22% of all employment in Montréal. Despite comprising 20% of Montréal's labour force in 1996, immigrants held just over 9% of government jobs and 13% of construction jobs, a sector which is normally a major absorber of immigrant labour (Preston and Cox, 1999). Language requirements also restrict the market for Anglophone small businesses, which are essentially excluded from government contracts. In addition, language primacy in government also impacts immigrants' (and all Anglophones') access to social services, including health care, education, and training. All of this restricts the economic opportunities available to the Anglophone population and reinforces social, cultural,

[52] This referred to either accepting Bill 101 (the law defining French as the only official language of the province) or taking the motorway route 401 which leads from Montréal to Toronto.

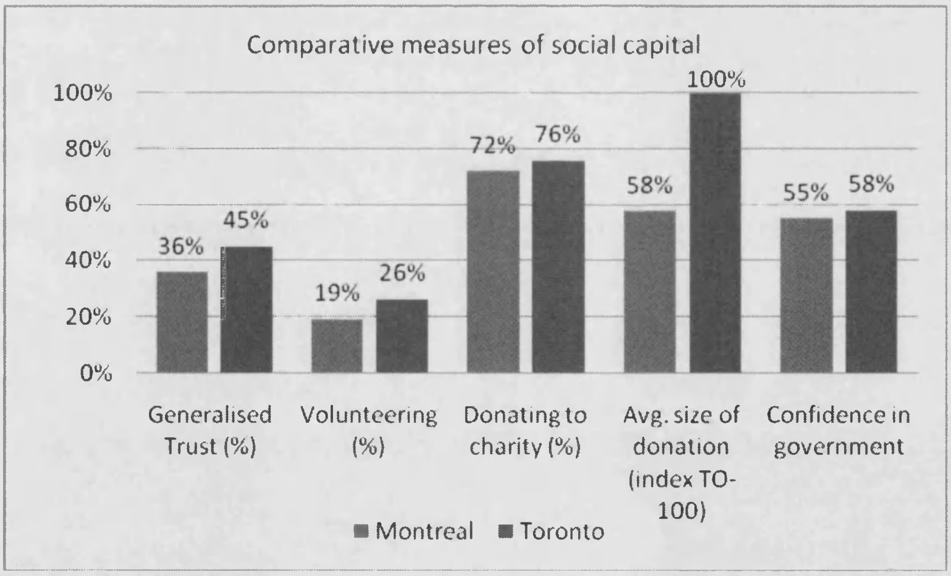
and political separation, forcing communities to turn in on themselves for support. Research has shown that ethnic communities are amongst the first to establish community structures to support those in need within their communities (Seguin and Germain, 2000). Whilst this reinforces bonding within communities, it often does so at the expense of bridging, marginalising immigrant communities still further from the mainstream institutions of society.

Indeed, whilst the British-born Anglophone population remains amongst the more privileged in Montréal, the inability of Montréal to integrate its immigrant population has had a substantial economic impact not only on the immigrants themselves, but on the city overall. More than 45% of recent immigrants in Montréal were living in poverty in 2000 (Heisz and McLoed, 2004) compared to only 28% in Toronto. A recent study (Zietsma, 2007) indicates that unemployment rates amongst recent immigrants in Montréal in 2006 was three times the rate of Canadian-born Montréalers and more than 60% above the rate for recent immigrants in Toronto. More importantly, evidence from the study suggests that immigrants in Montréal fare far worse than their peers in other Canadian cities in terms of integrating into the job market over the longer term; immigrants who have lived in Canada for more than a decade have employment levels on par with the Canadian-born population, in Montréal their unemployment rate was still 50% higher than the Canadian-born population in 2006.

And the implications of exclusion are not simply poverty and inequality. At a society-wide microeconomic level, it is a direct contributor to the relatively low levels of productivity that are primarily responsible for Montréal's poor relative growth performance (OECD, 2004). Low levels of labour force participation from excluded communities offset some of the gains in participation achieved by the Quebecois population in recent decades, acting as a barrier to growth. The overall employment rate of adult immigrants in Montréal stood at only 31% in 2001, compared to 38% in Vancouver, 45% in Toronto, and 57% in Calgary (Statistics Canada, 2001). This is likely to be a major factor restricting the levels of immigration and in stimulating emigration of Anglophone immigrants, further contributing to the demographic dampening of growth in Montréal. The immigrant share of the population in Montréal rose by only 5% between 1970 and 2006, a rate far below that of Toronto and Vancouver (Statistics Canada, 2006). Moreover, up until 2001 Montréal continued to experience net outmigration of Anglophones (Corbeil and Blaser, 2006), and immigrants; across all of Quebec net interprovincial outmigration averaged 9,000 annually between 1986 and 2006, down from more than 24,000 annually in the previous decade but still substantial. Finally, unequal access to labour market opportunities reduces the potential returns to investment in human capital, which may well contribute to the persistently lower levels of educational attainment in Montréal.

Exclusion, combined with the sharp cleavages across communities in Montréal, in particular from the mid 1970s through the mid 1990s, bred deep distrust across Montréal society. This exacerbated what was already a relatively "low trust" Quebecois culture (Uslaner, 1997), and may well contribute to the relatively low levels of associationalism and broader social capital in comparison to Toronto, as can be seen in Figure 6.5. Generalised trust[53] is indicated by only 36% of Montréalers versus 45% of residents of Toronto.

Figure 6.5



Source: World Values Survey; Statistics Canada; (Canadian Council on Social Development, 2006)

The data for volunteerism show an even greater gap between the cities, with only 19% of residents in Montréal engaged in voluntary community activity against 26% in Toronto. Whilst the percentage of citizens donating to charity was relatively similar, the average size of

[53] As measured by the standard World Values Survey question: "Generally speaking, would you say that most people can be trusted, or that you cannot be too careful?"

donations in Toronto was C$286 versus only C$165 in Montréal, a difference which far exceeds the gap in disposable incomes between the cities. Interestingly, statistics for confidence in government do not differ significantly between the cities. And the fact that Montréalers show a similar confidence in government as do Torontonians despite lower generalised trust may be evidence of a culture of paternalism in the city, whereby both Anglophones and Francophones look to the state in the absence of community-level trust. Evidence of poor integration and marginalisation of immigrant groups can also be found in statistics on community and social participation. For example, only 22% of immigrants in Montréal are members of some formal or informal organisation, whilst nearly 50% of Canadian-born citizens participate in community groups (Canadian Council on Social Development, 2006). By contrast, in Toronto the gap in participation between immigrant and non-immigrant groups is negligible. This has implications on the potential for excluded communities to mobilise for collective action and acts as a further barrier to societal problem solving.

Low levels of generalised trust and a lack of bridging opportunities across communities has had a number of negative implications on growth, dynamism, and adjustment processes in Montréal. For one, labour mobility is restricted, resulting in poorly functioning labour markets, with inefficient matching between market requirements and skills. This lack of mobility is manifest in two ways. First, physical mobility of residents has historically been restricted by the location of language communities in Montréal. Anglophones have traditionally concentrated in western Montréal and the downtown, immigrant communities in the downtown. Outside of the downtown and western part of the city few English-language based jobs are available. And within these communities, Francophones continue to be excluded from quality employment opportunities unless they also speak English. Mobility restrictions can also be seen in the continuing importance of close, informal social networks in labour markets (Langlois et al, 1992). Within the elite Anglophone community in particular, social and business networks are seen to remain strong and well mobilised (personal interview, S. Bouffard, 26 June 2007). These factors may have contributed to the relatively high levels of unemployment and low participation rates Montréal experienced well into the 1990s.

The cleavage within the business community up until the 1990s is also likely to have restricted the potential for firms to take advantage of scale economies and dampened innovation prospects. Outside of the Francophone state corporations and a few firms such as Bombardier and Simard, the Montréal economy continues to consist mainly of SMEs, most of which have been family-run at least until recently. Although no data is available at the metropolitan level, a recent survey (Riding and Orser, 2007) indicates that Quebec has a higher than average SME share (relative to GDP) than Canada overall, and the average size of these firms is much smaller than the Canadian average. And although mixed boards have become much more common over the years, they remained highly segregated during the 1970s and 1980s. Even today, a survey of the Montréal area's ten largest public companies shows significant ethno-linguistic imbalance, with more than 80% of board members across these sharing the ethnolinguistic community of the company's origins[54].

Poor bridging has also stifled innovation potential by restricting collaboration not only across firms but also universities, research institutions, and governmental bodies. And like other communities in Montréal, the business community's bias toward collaborations with other strong tie networks within the city, and secondly within the province, hinders access to new knowledge, particularly of the sort that facilitates more far-reaching innovations (Chubin, 1976; Granovetter, 1985). In the case of biotechnology sector (a target growth cluster in Montréal) this deficiency in collaborative capacity has been exacerbated by territorial politics which has led to fierce inter-municipal competition in the cluster (personal interview, D. Rose, 4 July 2007).

The institutionalisation of community may have served to entrench sectarian interests and the role of the state as the dominant actor in the city's socio-economic development. First, by establishing the structure, communication channels, and funding sources for community groups, the state stifled their capacity for self-organisation. Moreover, the reliance on government funding creates a negative incentive to bridging, as groups fear that working together may expose overlapping mandates, risking future funding. This has been seen, for example, between the Montréal Board of Trade and Montréal International, where both sides have slowly stepped into the others' area of competency – e.g. the Board of Trade sees a role

[54] Based on a review of the 9 Montréal area companies listed in Forbes (2007) report on *The World's 2,000 Largest Global Companies* plus Bombardier. Of the 119 board members listed across these companies (based on information provided by the companies' websites), 96 were members of the majority ethnolinguistic community of each firm. Note that 6 of the 9 firms were predominantly Francophone and 3 predominantly Anglophone.

for investment promotion within its cluster support mandate, and Montréal International sees a role for cluster development within its investment promotion mandate (personal interview, S. Bouffard, 29 June 2007). As a result, though organised groups exist on the ground, they tend not to form in response to new social or economic challenges, and coalition building amongst these groups is limited.

State control of development processes was a significant contributor to the relatively poor economic performance of Montréal until recent years. Certainly, the extensive role of the state in economic and social life in Montréal has had some positive consequences. Most importantly it has facilitated rapid improvements in the education levels of the Francophone population, raising individual opportunity, participation in labour markets, and productivity. It has also enabled the Francophones to converge to near parity with the Anglophone population in terms of income per capita, a revolutionary outcome given the huge gaps that existed only thirty years ago. However, it also left the legacy of a highly bureaucratic society, evidenced by growing legalism in social relations. This has not only increased the transactions costs related to economic exchange, but is seen to have served as a "brake on collective creativity" (Langlois et al, 1992, p.250). In addition, it entrenched within the state the deep rooted paternalism of Quebecois culture. Despite consultative forums like the *Tables de Concertation*, the culture of paternalism remains today and influences the structure of societal institutions. Many argue that public consultation remains insufficiently robust, and that the administrative structure of city government lacks appropriate checks and balances, with standing committees operating as an arm of the executive and allowing the interests of powerful stakeholders to dominate planning processes (personal interview, H. Aubin, 3 July 2007).

In the absence of mobilised communities acting as a check and balance against the state, and with most state institutions under the control of a single community, Montréal's development processes suffered from paternalism and clientelism, ultimately resulting in a skewed, and inefficient distribution of public goods. Indeed, from the 1960s until the late 1980s (and arguably into the 1990s), economic development strategy in Montréal was influenced primarily by competing approaches to the Quebec nation building project, both of which facilitated redistribution primarily to benefit the Francophone community, and neither of which addressed adequately the post-Fordist challenges facing the city. Both approaches eschewed supply side policies in favour of promoting investment in the form of publicly funded projects or attracting FDI.

Provincial government focused on building 'Quebec Inc' through investment in state corporations, mainly in the natural resources sector. It also extended huge support in the form of loans, guarantees, equity funding, and R&D assistance to Francophone companies, in most cases without regard to their sectoral focus. More than 160 programmes of economic assistance were available to Quebecois-owned enterprises in Montréal and throughout the province by 1978 (Levine, 1990, p. 153). Although from the early 1980s provincial industrial policy recognised the need to shift away from commodity industries toward a technology basis of comparative advantage and to develop the services sector (Kresl, 2000), policies to effect this paled in comparison to the support for existing national champion sectors. This failure of provincial industrial policy to adjust to changes in the province's basis of competitiveness is in part rooted to the prevailing corporatist environment (Langlois et al, 1992; Montpetit, 2003). The state engaged in directed, concerted action with labour (in the form of the unions) and capital (in the form of the provincial 'crown corporations'), and in particular the financial institutions (SGF and *Caisse de dépôt et placement*), in a project that encompassed both the formal state-owned companies and the wider Francophone corporate management class (Germain and Rose, 2000). The need to accommodate these constituencies, even after the initial process of building 'Quebec Inc' in the 1970s may well have distracted attention away from the development of technology and knowledge bases of comparative advantage at a time when the city of Montréal was in urgent need of development in these areas.

Within the city itself, an alternative vision of Montréal as a global capital was at the root of boosterist development strategy of Mayor Jean Drapeau. Described as a "'strong man who was not open to either criticism or parliamentary opposition" (Roussopoulos, 2005, p.293), Drapeau ran the city almost single-handedly for most of the period between 1954 and 1986. One elected city official later wrote that he and 56 other councilmen were being paid "to come down once every two or three months and approve two or three hundred resolutions the Mayor had put together" (Kaufman, 1999). Economic development policy under Drapeau centred on grandiose public works projects such as the Montréal subway system, the *Place des Artes* concert hall, *Place Bonaventure*, man-made islands in the St. Lawrence River, Expo '67, and the 1976 Olympics. The implementation of this strategy, which bankrupted the city, was made possible not only by its appeal to Quebecois nationalism but also by the nature of community and society in the city. Public investments were channelled to French speaking parts of the city, accommodating the Francophone community. The paternalistic society accommodated the type of highly top-down approach by which Drapeau ruled, and his projects appealed to the existing elite. The Anglophone capital class and the Francophone small businesses and property owners both benefited from the property development driven strategy.

The use of societal institutions for the purpose of furthering the Francophone community and the heavy state intervention in the economic development process had a significant implication on the investment climate in Montréal. The government recognised that lack of investment was a major factor behind economic stagnation in the city and put investment attraction at the centre of their economic development agenda from at least the early 1980s. Yet the uncertain policy environment created by the PQ's provincial election victory in 1976 not only resulted in the short term flight of capital and corporate headquarters from Montréal, but made the province a relatively unattractive investment proposition. Not only did FDI levels decline, but the nature of investment changed – investments in Montréal became mainly of the branch plant variety to serve the (Quebec) regional market; investors looking to establish national or international headquarters were more likely to seek out locations in Toronto or elsewhere (Polése and Shearmur, 2004). At the same time, although the state built a strong Francophone capital base during the 1970s much of this was ultimately derived from public funds, most prominently through the *Caisse de dépôt et placement du Québec*, which manages Quebec public pensions. It has been argued (c.f. McMahon, 2003; Cumming and MacIntosh, 2006) that massive direct public investment and financing had a crowding out effect, leading to the chronically low levels of private sector investment in Montréal from the mid 1970s until the 1990s.

The corporatist development approach remained even following the shift in development strategy toward industry 'clusters' in the early 1990s, which placed emphasis on developing technology and knowledge-intensive sectors. There has been little evidence of effective bridging sectorally or spatially, or of much in the way of private, grassroots initiatives. Where the cluster initiatives appear to be making the most progress is where the state has played a facilitating rather than a directing role, and particularly where they have responded to bottom-up initiatives from the business community. Examples of this have included the cultural cluster and the film cluster, where the sectors had already organised itself at various local levels in the city (personal interview, C. Chapaine, 13 August 2007). Here the institutionalising capacity of the state responded to the collective action of community by providing funding to formalise initiatives and extend them to the metropolitan level.

Investment promotion and property development schemes remain the cornerstones of the city's strategy. Montréal International, the public-private organisation that has been responsible for metropolitan area investment attraction since 2000 is by far the most powerful economic development organisation in the city. And although government holds only 10 of the 27 board positions, it still funds 90% of the budget. The remaining 10% is supported mainly large companies in the region who pay membership in order to show their "commitment" to the city "and to maintain a good relationship" (personal interview, E. Farah, 12 August 2007), suggesting that an environment of corporatism remains in the city. Finally, the large investments of public funds that have been committed to *Quartier international de Montréal* and *Cité Multimédia* testify to the continuing importance of mega property projects in the city's development strategy.

Of course, the city has benefited from access to state resources for the implementation of economic development initiatives. One notable example is the huge subsidy that was mobilised to attract the French multimedia company Ubisoft to establish operations in the city. C$25,000 per employee was offered to Ubisoft annually for a period of five years, C$15,000 of which came from the province and C$10,000 from the federal government (Tremblay and Rousseau, 2005). Ubisoft today employs more than 1,000 people in Montréal and has been critical to the successful development of the city's multimedia cluster; yet whether such a subsidy was warranted remains a controversial issue. Another example is the venture capital funding that has been made available throughout the province. Montréal now has more than 50% of all venture capital finance in Canada. Although only a small portion of the capital comes from government directly, more than 50% of all venture capital in the province is sourced from union pension funds. Thus, the corporatist relationship between government and labour has provided a significant source of capital for start-ups which in a city like Toronto would be available only from the private sector. Whilst the substantial financing available from government has been instrumental at supporting economic development initiatives in Montréal, the downside of reliance on government largess, particularly from higher tiers of government, is the politicization of the development process. For example, following on from the Ubisoft investment, the City of Montréal initiated the *Cite du multimedia* project in 1998 to attract ICT and multimedia firms into the city, whilst regenerating a run-down area of the downtown. This was supported by provincial funding for incentives to support job creation (along the Ubisoft model). But when the 'dot-com' bubble burst in 2000, the province eliminated its funding for job creation, severely undermining the feasibility of the project and once again raising questions as to the predictability of the investment climate in Montréal.

Montréal's emphasis on local economic development since the early 1990s, institutionalised through the CDECs, has certainly helped the city provide a social response to the fallout of industrial decline. A number of valuable projects have come out of the CDECs including the industrial developments like *Angus Technopole* (redevelopment of an old Canadian Pacific rail yard in Rosemont) and social entrepreneurial ventures like the *Coopérative La Maison Verte* (an organic products retailer in Cotes-des-Neiges). They have played perhaps a more important role in providing a forum for community voice and participation vis-à-vis the state. However, the community development process in Montréal suffers from being a product of both fractured community and an imbalanced community and society. The spatialised structure of community development in the city reinforces the historical ethno-linguistic segregation and does little to build bridges across communities, particularly as there are no real mechanisms for CDECs to come together at a metropolitan level (Fontan et al, 2003). Moreover, the nature of community organisations, their neighbourhood orientation, and their position in relation to the state tends to bias actions toward small-scale and palliative responses, which assist individuals to cope with the fallout from changing external circumstances but do little to bring about adaptation of the underlying structures of competitiveness in the city. One interviewee stated: "Local communities can only really tinker round the edges... they aren't given the tools to really drive development" (personal interview, J.M. Fontan, 19 June 2007).

Finally, low levels of trust and a divisive community environment not only led to a lack of constructive participation in microeconomic processes but also in processes of problem solving. One interviewee observed that Quebecers "have a tendency to complain about things and focus on what is not going well rather than contributing positively to debates and getting things done" (personal interview, S. Bouffard, 29 June 2007). Over the years, the historical mistrust of the Anglophone elite that derived from the excessive concentration of resources in the group appears to have widened to form a deep, collective suspicion of wealth and power on the part of the Francophone community. For their part, the Anglophone community has embraced an identity based on victimisation and see the Francophone society as unable to be trusted. This helps to explain why individuals and groups may be hesitant to work together on initiatives, and particularly restricts the potential of the business community to emerge as a leader in the city in the way that it has in Toronto. It is also why, when complex and important political questions get raised (as happened in the early part of this decade over the issue of municipal amalgamations), both communities tend to react mechanically, retreating to their entrenched positions and turning the issue into one of identity and linguistic survival. In the case of the municipal amalgamations, the result is that six years on from the mergers, half the municipalities on the island of Montréal subsequently demerged and are now nominally independent[55]. And the amalgamation battles have left a legacy of political divisiveness, whilst undermining the potential for achieving the efficiencies originally envisaged. Perhaps this is a telling analogy for Montréal's economic development experience over much of the last three decades.

6.4.2. Toronto

The institutional arrangements of community and society in Toronto have contributed to the city's highly adaptive economy. However, Toronto's model has always risked elite capture of development processes, with negative distributional consequences. A benign societal environment and benevolent elites have negated this threat for much of the period up until the mid-late 1990s. The apparent disappearance of the societal consensus over the past decade, combined with rapidly increasing immigration, has threatened to undermine Toronto's balance of community and society, with potential implications not only for equity and social

[55] Demerged municipalities did in fact lose a substantial degree of the fiscal and political independence they had prior to amalgamation.

cohesion, but also potentially economic growth. However, the recent emergence of business and civil society-led initiatives to address both growth and, particularly, equity and inclusion suggests that the Toronto model may once again strike the right balance to facilitate long-term growth and development.

In contrast to the situation in Montréal, Toronto is recognised as a model of an inclusive society. This is probably nowhere better illustrated than in the city's experience in absorbing and integrating immigrants. According the 2006 Census, immigrants total 2,320,165 or 45.7% of residents of the Toronto CMA. In only a generation, Toronto went from being largely homogenous to one of the most ethnically diverse city in the world, supporting an immigrant population three times the Canadian average for a city of its size. According to most measures, integration in Toronto has been remarkably successful. Until the massive influx of immigrants over the past 10-15 years, unemployment and poverty rates amongst immigrants were not substantially higher than that of the Canadian born population. In contrast to the situation in Montréal, social participation of immigrants is on par with that of Canadian-born citizens, with nearly 50% of Toronto's immigrants participating in community groups (Canadian Council on Social Development, 2006).

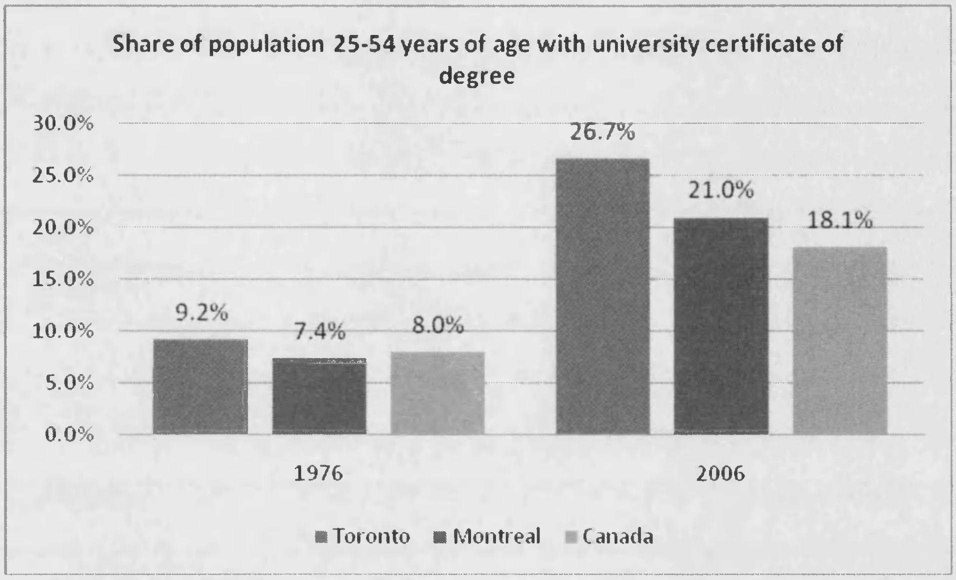
Numerous ethnic business associations and community groups exist throughout the city. And the environment of associationalism in Toronto has resulted in immigrant groups engaging in substantial collaboration, much of it instrumental in nature. Toronto's Business Improvement Areas (BIAs) typically involve coordination across ethnic groups and represent a highly successful example of collective action within the business community. One of the largest-scale examples of cross-group collective action in the political sphere was the "New Voices for the New City" a coalition of 65 ethnic community groups that joined forces in 1997 to lobby against amalgamation and to promote a candidate in the subsequent mayoral election. More recently, the Toronto Chinese Business Association, the Indo-Canada Chamber of Commerce, the Federation of Portuguese Canadian Business and Professionals and the Italian Chamber of Commerce worked together to sponsor a debate amongst the city's three mayoral candidates in 2006. Immigrant organisations have also built strong alliances across ethnic communities, around such issues as women's rights, combating racism, and access to social services (Siemiatycki et al, 2001).

Societal institutions in Toronto, most importantly the public transport system and social housing have encouraged integration by facilitating mobility of the immigrant population around the city and into the inner and outer suburbs. This has helped avoid immigrant ghettos and ensured that individuals from different communities interact (if only in passing) on a daily basis (personal interview, J. Sewell, 6 July 2007). Access to government employment is another means by which society in Toronto has supported the integration of immigrant communities. Whilst the relative representation of Canadian-born workers in government employment was nearly 2.5 times that of immigrants in Montréal in 1996, it was only 50% higher in Toronto (Preston and Cox, 1999). Finally, inclusion has been promoted by private sector actors like the Maytree Foundation and the Toronto Community Foundation, which have actively created structures to bring ethnic community groups together and link them with mainstream groups.

Such an environment of inclusivity helped support an efficient and productive labour market in Toronto, ensuring high levels of participation and facilitating labour mobility. Labour force participation in Toronto has consistently been 2-3 percentage points higher than the national average over the past three decades, a significant feat for a major metropolitan area with a large population of recent immigrants. And employment rates for Toronto's immigrants that have been in the country 11 or more years was only 4 percentage points lower (81.5% v 85.6%) than for Canadian-born population in Toronto in 2001; in Montréal the gap was 10.6 percentage points (Zietsma, 2007).

This relatively open labour market, in turn, encouraged investments in education and skills development. Figure 6.6 shows that whilst Toronto's share of population with a university degree was ahead of Montréal and the Canadian average in 1976, it not only maintained but extended this advantage over the subsequent 30 years, from only a 15% gap versus the national average in 1976 to almost 50% by 2006. Even in comparison to Montréal, which had a pent up demand for tertiary education amongst the Francophone community and where university education was almost fully subsidised by the state, Toronto grew its skills base more quickly. This is likely to have had a significant impact on productivity growth in the city, as well as on its capacity to generate and absorb innovation.

Figure 6.6



Source: Statistics Canada

Effective integration and the absence of the type of community conflicts that plagued Montréal during the 1970s and 1980s supported an environment of relatively high generalised trust and associationalism in Toronto, particularly given its highly fragmented social structure. As can be seen back on Figure 6.5, generalised trust was indicated by 45% of Torontonians, a level 25% higher than that of Montréal. And more than one in four residents participate in voluntary activities, a level 36% above that in Montréal. Levels of charitable donations by Toronto residents are the highest amongst all Canadian metropolitan areas and exceed those in Montréal by more than 75%.

This generalised trust and non-particularised associational capacity has been critical supporting bridging amongst individuals and groups both in social and economic contexts. In contrast to Montréal, the relative spatial disengagement of community in Toronto appears to have played an important role in promoting bridging, including civil society groups, communities of practice, and businesses. A vertical structure – whereby Toronto-based groups link into higher level organisational structures at the provincial and national levels – is the common form for the city's civic, business, ethnic, and labour communities. Such a structure promotes access to new knowledge and ideas not just from the region but globally and may play an important role in facilitating innovation.

Yet despite the associative capacity observed amongst individuals and civil society, the relative passivity and limited collaboration amongst the business community may have restrained growth opportunities in the city. An historically benign economic environment, combined with limited state support for projects around which the business community might come together, has restricted the scale of collaborations that have been possible amongst firms and between firms and research institutions. Universities, particularly the University of Toronto, have played an important research role supporting clusters including design, advanced manufacturing, life sciences, and aerospace. Again, private sector initiatives have led the way, including TRRA (which emerged from the TCSA) and MaRS, an innovation centre / incubator established by social entrepreneur Dr. John Evans which attracted financing from all three tiers of government. But according to an interviewee from the Toronto Regional Research Alliance (TRRA), insufficient funding has been made available from the state to bridge the research from the stage of the "academic paper" to the point that a private company would be ready to come in to collaborate – "People in businesses are extremely busy and have incentives for shareholder value... therefore it is critical to have sufficient public money to support the projects around which they can collaborate." (personal interview, W. Stewart, 7 June 2007).

Toronto's community and society structure has had significant implications on the economic development policies pursued in the city in recent decades. The absence of community conflict, the relative lack of strong, entrenched elites, and the propensity of communities to form 'weak tie' networks and coalitions has curbed the pressure for redistributive policy. In addition, the lack of dominant sectoral interests meant that a balance of power was maintained between new growth sectors like financial services, life sciences, and tourism, and the region's traditional employment generators such as automotive manufacturing, food processing, and transport and distribution. This helped local and provincial government avoid policy privilege to any single economic sector and facilitated ongoing evolution of the regional economy. It allowed industrial policy to put substantial focus on supply side measures, to balance support for new and traditional sectors, and to avoid for the most part boosterist development projects. Moreover, the relative consistency in institutions and policy that resulted from this ensured a stable and predictable microeconomic environment, raising the confidence of investors.

Since as far back as 1980, provincial industrial strategy in Ontario shifted away from targeted subsidies to innovation focused development built around sectors and (more recently) clusters (Wolfe and Creutzberg, 2003). This included the establishment of the Board of Industrial Leadership and Development (BILD) in 1981 which invested more than C$100m in industry-focused technology centres, the creation of the Innovation Development Employment Advancement (IDEA) Corporation and five technology transfer centres, and later the C$500m R&D Challenge Fund. At the same time, in parallel with this focus on innovation, the province also supported the traditional manufacturing sector through development of industrial parks, the 1990 Manufacturing Recovery Program (designed to assist firms post-NAFTA), and the C$200m Employment Development Fund. These supply side interventions enabled declining industries to adjust the basis of their competitiveness in global markets and helped ensure that region maintained a diversified economic base.

In the five economic development strategies have been implemented at the city-level since 1984, government's approach has been non interventionist. In the strategies of the 1980s and early 1990s, city government focused on providing business development support services, although it also became involved in limited property development through the self-financing Toronto Economic Development Corporation (TEDCO). In the more recent strategies (Toronto Economic Development, 2000; 2008), which like Montréal's are organised around clusters and a competitiveness paradigm, government backs even further away from a service provision role, instead positioning itself as a facilitator and making more explicit the roles of the private sector and other partner organisations in implementing the strategy.

To some degree the *laissez faire* approach of city government is as much an indication of its weakness as it a calculated strategy. Indeed, the City Council has struggled to make itself a relevant player in economic development and to engage stakeholders in the process. Despite a systematic and detailed economic development process put in place following amalgamation, the city failed to be taken seriously as a driver of development by the business community and other stakeholders (personal interview, T. Egan, 20 June 2007). In the absence of a strong government-led development strategy, however, many sectors have taken their own initiatives to organise and develop clusters. Creutzberg (2005) notes that at the peak of the IT boom in 2000 up to 25 IT and high tech industry associations carried out a wide range of functions across the city region. As a result of such bottom-up initiatives, innovative ideas are constantly being developed and tested. Similarly, innovative private initiatives have also emerged in the community development sector. One notable example is the Learning Enrichment Foundation (LEF) set up by the board of education in a poor, industrial neighbourhood in the City of York in 1978. Over the past 25 years, LEF has grown to provide a wide range of employment and social support services for the local community including education and training, a network of daycare centres, an after school programme, an incubator, and a woodworking community enterprise, amongst others.

However, reliance on private, bottom-up initiatives has restricted their scale and sustainability. The downside of the IT sector story noted above is that the fragmented group of associations were unable to integrate themselves or provide a coherent system of institutional support for the sector. In addition, the lack of an institutionalised structure for community has led to fragmentation in activity on the part of groups, resulting in overlap and inefficiencies. As one official from the city government described it, Toronto has "1,000 points of light – all doing great things, but none with the critical mass to have a real impact" (R. McLean, personal interview, 9 July 2007). On the other hand, one interviewee argued that Toronto's small-scale, activist community approach "... won't lead to any revolutions... but it avoids stasis and provokes innovation" (personal interview, J.A. Boudreau, 13 June 2007).

Finally, in the absence of a strong, structuring society, voice and influence is assymetrical. This raises the risk of either insufficient provision of public goods or of redistribution to the benefit of certain communities. As one interview noted, economic elites in Toronto have been more successful than they have been in Montréal, in shaping the development agenda to their benefit (personal interview, J.A. Boudreau, 13 June 2007). In an environment of consensus politics where the elites have been largely benevolent and the distributional conflicts benign, the potential negative implications of this model have been contained. For example, the Metro government's pooling of taxes and redistribution of social services spending across the city-region played an important role in dampening the impacts of the early 1990s recession and mitigating potential distributional conflicts (Donald, 2005). The attractive business climate in Toronto helped support a distributional compromise whereby the business sector paid relatively high taxes in order to keep taxes low on residents and support redistribution.

By the 1990s, however, this long-standing political consensus may have started breaking down, as evidenced by the growing battles for business investment between the city and the suburbs. This happened in parallel with federal and provincial cutbacks and downloads, exacerbating further the potential for distributional conflict in the city. Local and provincial politics has also become significantly more polarised over the last 10-15 years. And growing levels of inequality suggests that the trade off between winners and losers is becoming larger. The poverty gap between immigrants the Canadian-born population grew considerably in recent decades – the poverty rate amongst immigrants doubled from 17% above the CMA average in 1980 to 35% in 2000 (Zietsma, 2007). And rising poverty amongst recent immigrants has come despite evidence that they are in fact better educated and more highly skilled than previous waves of immigrants (TD Economics, 2007).

Thus Toronto may be facing a crossroads, where the distributional consequences of its development model begin to constrain future growth of the metropolitan economy. Yet there is evidence that emerging associative governance processes, led by the private sector rather than the state, is taking advantage of Toronto's inherent capacity for bridging and coalition building to re-establish the societal consensus for equitable growth. The most prominent example of this is the Toronto City Summit Alliance (TCSA), a coalition of civic leaders, led by David Pecaut of the Boston Consulting Group, from the business community and civil society which emerged in 2003 following an initiative from the Mayor of Toronto. The TCSA appears to have taken the role of private coalitions in Toronto to its logical end: in a reversal of traditional roles, TCSA has set the economic and social development agenda and has brought the government in as just one of many stakeholders.

TCSA's operating model has been to engage leaders from the business community and from the community sector to take responsibility for leading each of the initiatives, and providing staff resources and basic funding. By leveraging the political clout of the business and community leaders, TCSA has been able to exert much more influence on provincial and federal politicians than could have been achieved by city government. As the executive director of TCSA put it "These guys can sit down and write 'Dear Jean [Chretien]- I look forward to seeing on the golf course on Saturday...and by the way we hope you will support...'" (personal interview, J. Deans, 14 June 2007).

Their strategic plan for the city, *Enough Talk- an action plan for the Toronto region* (TCSA, 2003), was launched in April 2003. Although government supported the project, the strategy was very much owned by the private sector. It was quite directly positioned as a response to government failure based on the belief by its proponents that "there are some things that government can't and shouldn't do" (personal interview, J. Deans, 14 June 2007). Despite the project being positioned broadly within a 'competitiveness' context, its initiatives have tended to weigh more heavily on issues of social welfare than of economic growth per se. Growth-oriented projects included city branding, the Toront03 Alliance to support the tourist sector following the SARS crisis (which in 2007 evolved into Luminato, a partnership on arts and culture), and the Toronto Regional Research Alliance (TRRA), designed to bring together public and private research organisation and promote Toronto as a location for R&D. But the socially orientated projects have had a higher profile. These include Toronto Region Immigrant Employment Council (TRIEC), The Task Force on Income Security for Working-Age Adults (MISWAA), and projects on youth, emerging leaders, and affordable housing.

Since its launch in 2003, TCSA has developed substantial inertia. Attendance at their annual conferences grew from 100 at the 2003 session to more than 630 at the most recent one held in August 2007. More importantly, there is evidence that TCSA is effecting real change in the city, and is increasingly expanding its scope of participation to encompass less mainstream parts of the community. One interviewee described it thus: "...A handful of civic leaders (Pecaut, Drummond, Miller, Coffey) are creating tables at which the unwashed mix..." (personal interview, A. Yalnizyan, 19 July 2007). Certainly TCSA has its detractors: some view it as an elitist project with a corporatist agenda (personal interview, J. Conway, 20 June 2007), others argue that it takes too little account of ethnic communities and other groups outside of mainstream civil society (personal interview, V. Fernando, 7 July 2007). And the city government admitted a "love-hate relationship" with the coalition, expressing concerns that it has set it itself up as an alternative to the state, acting as a "quasi-regional government" (personal interview, R. McLean, 9 July 2007). However, TCSA is increasingly becoming recognised as the single most important actor in the city-region. It offers a model of associative governance that would be impossible in a region where bridging community was weak or where development processes were controlled by institutions of the state. As (Maxwell, 2006, p.16) notes, collaborations like TCSA represent a fundamentally different model for Canada: "... it has been the community itself which has defined the common purpose, mobilised local, provincial and sometimes national contributions, and directed the overall initiative. In other words, there is a role reversal here. Local people lead and senior governments follow".

Chapter 7: Discussion of findings from case studies

7.1 INTRODUCTION

This chapter synthesises the main findings of the two sets of case studies presented in Chapters 5 and 6, drawing on examples from across all four cities for the purposes of illustration and comparison. In doing so, it considers these results in the context of the hypotheses and existing research outlined in Chapters 2 and 3. After a brief introduction of some of the broad conclusions, we discuss the main findings on the structure of community and society across the four cities. This is followed by a more detailed review of the findings with regard to the impact of community and society on microeconomic exchange and institutional adaptation.

7.2 SUMMARY AND BROAD FINDINGS

The two sets of case studies presented in Chapters 5 and 6 present broadly similar storylines, that of the contrast between a city growing robustly and apparently adjusting effectively to changing economic circumstances against one which has experienced decline or at least stagnation and apparently has failed to adjust. That, at least, is the stylised picture; indeed, the case study cities were selected in part due to their appropriateness as dependent variables in our hypothesis. Although generally speaking Leeds and Toronto did grow strongly whilst Sheffield and Montréal experienced relative stagnation, in reality each of the cities followed a unique economic path over the thirty years covered in the case studies. These paths broadly map onto the modes of regional adaptation outlined in Figure 3.4 and the subsequent discussion (Chapter 3).

Sheffield experienced stagnation as the outcome of a pattern of path dependence and regional lock-in, which was exacerbated by subsequent political conflict. This corresponds to the mode of adjustment termed "stasis" in Chapter 3. In Montréal, stagnation and the resulting shift of the city to what may be a permanently lower growth path appears to be more the direct result of the political conflict between the Anglophone and Francophone communities. Thus, although the result was similar to the path of "stasis" it may represent a specific form of that case, not fully considered in Chapter 3. Leeds and Toronto both maintained strong patterns of growth thanks to their ability to achieve economic diversity through adjustment over the long term. In Leeds, however, the successful growth pattern was the result of a 'reinvention' of the city over the 30-year period covered in this case study. In Toronto, the diversity was maintained in part by its becoming increasingly a 'world city' over this period. Both of these examples show some elements of the mode "selection" and some of the mode "adaptation" outlined in Chapter 3, with Leeds' recent reinvention perhaps corresponding more to the former (particularly in the context of the current financial crisis which may threaten the city's newfound economic base).

The important question, from the perspective of this thesis, is whether institutions were a significant contributing factor to these differing patterns of adjustment, and whether the institutional forms of community and society, in interaction, is a useful framework for understanding how institutions shaped these growth paths. Traditionally, most attempts to explain the patterns of economic growth in cities have focused on geography, human capital, and (especially) specialisation, or a combination of these. Finding incontrovertible evidence from case studies is never likely, and indeed, in our cases, the evidence one way or the other has come only in fragments. We certainly find evidence to suggest that these traditional factors are, at least, proximate causes. But we also find evidence showing that community and society institutions vary considerably in these cities. Further, the case studies are able to show that the different structures and configurations of community and society have contributed to different patterns of participation, conflict resolution, and innovation. It is highly likely, therefore, that these institutional factors have had an impact on processes of adjustment and, therefore, on growth. Most likely institutions play a structuring role for these other factors. Indeed, evidence from the case studies seems to suggest that specialisation and human capital, if not geography, are reflexive with the institutions of community and society – effective institutional environments can lead to higher investments in human capital and can facilitate sectoral diversity; higher levels of human capital in turn enable selection into high value added sectors and promote better functioning of institutions; sectoral diversity promotes greater opportunities for human capital development and helps ensure institutions remain efficient and balanced in the way they serve communities. This is the virtuous circle, broadly speaking, has taken hold in Leeds and Toronto. In Sheffield and Montréal, meanwhile, a similar but negative circular causality appears to have taken hold at least during the 1970s and 1980s.

Finally, we note that cities are moving target. Whilst many institutions are relatively durable, evidence from our case studies suggests they may change considerably over a 30 year period. Sheffield, for example, experienced a profound change in its institutional environment during the 1990s, with community becoming more open and active, and city-level institutions modernising. More recently, there is evidence from Toronto that private sector led initiatives (most importantly the City Summit Alliance) may be ushering in a new era of associative governance. In Leeds, too, where overlapping networks of active communities interact across several institutional domains, associative models are replacing top-down governance structures with what one interviewee described (in a positive light) as a "hydra-headed monster" (personal interview, N. McClea, 11 August 2008).

In what follows, we review the main findings from the case study research drawing on examples from all four cities.

7.3 THE STRUCTURE OF COMMUNITY AND SOCIETY

Results from our case studies broadly support the importance of identity as a fundamental factor structuring the formation of community. The primary determinants of identity, however, differ across our case study pairs. In the Canadian cities, ethno-linguistic factors play a major role in identity formation, and subsequently in structuring the networks that make up community. In the far more homogenous English cities, ethnolinguistic identity plays only a marginal role. However class, whilst not as powerful a force, does appear to play an important role in determining networks in Sheffield and, somewhat less so, in Leeds. Both bases of identity can give rise to different forms of community.

Ethnic and linguistic identity is one of the strongest forces contributing to the formation of bonding community. With large immigrant populations, it is not surprising that many of the community networks Toronto and Montréal are ethnically based. Evidence from our case examples suggests that community based primarily on ethnic and linguistic identity has several drawbacks. First, the community networks that arise from it tend to be closed, with little access to outside networks of people and knowledge. This is the case in Montréal, where the Anglophone and Francophone communities had, until very recently, almost no interaction, to the point that they operated completely independent Chambers of Commerce. These networks also risk being fragmented, which limits further their capacity to deliver benefits to their members and contributes to greater coordination costs and greater challenges to collective action (Alesina and Spolaore, 2003). This is the case in Toronto, where more than 100 different immigrant communities reside, as well as in Montréal, which has fewer overall immigrants than Toronto but lacks scale in most of them. But perhaps the greater challenge arising from the prevalence of ethnic or linguistically based communities is the risk that they contribute to conflict, or at least make conflict resolution more difficult. In line with the much of the literature outlined in Chapters 2 and 3, our findings support this view. In Montréal, conflict arising out of competing communities not only contributed directly to the economic decline of the 1970s, but its impact on problem solving institutions was a barrier to adjustment processes both before and after this period. However, it is not entirely accurate to portray the case of Montréal as being linked to ethnolinguistic *fractionalisation*; indeed, in line with our hypothesis and much of the literature on conflict (c.f. Easterly 2000; Montalvo and Reynal-Querol 2002; Alesina and La Ferrara, 2003) it is *polarisation* – the existence of two relatively large or powerful communities – rather than fragmentation which contributed to conflict in the city.

There are, of course, also potential benefits to be gained from ethnic or other 'mechanical' bases of community. For places that are otherwise highly individualistic and lack 'identity' (as both Leeds and Toronto were described by many interviewees), ethnic based communities can provide a basis of identity that strengthens network ties. In this respect, our findings suggest that Toronto has benefited significantly by the activism – for business and in some cases, political, purposes – of ethnic associations. Bonding forms of community have also proven to be effective at facilitating rapid mobilisation and supporting consensus, as was the case in Sheffield. However, such benefits are only likely to accrue where the community bonds encompass all or most of the society (i.e. in homogeneous places), as the conflict-ridden environment of Montréal reminds us.

Our findings suggest that class played some role in community formation in Sheffield and Leeds, but much less so in Montréal and Toronto. Overall, the strength of class as a basis for community formation was relatively weak in both cities. In Sheffield, class constituted less a true mobilising force than an historical vestige – that of the city as an industrial, working class heartland – around which a bonding identity formed. In Leeds, the 'middle class' serves as a source of solidarity, not so much as a form of identity but of aims and aspirations. As such it does not function as a mobilising force but does provide a common set of values that connects the preference sets of individuals across the city.

Our case studies support the idea that what matters is not necessarily whether one associates, but with whom and how (Uslaner, 2006). The findings indicate a link between communities with instrumentalist aims – i.e. those that form not around 'mechanical identity' but rather with the aim of achieving a certain objective – tend to be associated with more diverse, bridging forms of community. This can be seen in the issues-based activism in Toronto and, more recently, in community and issues-based networks in Sheffield. It can also be seen in the many formal and informal business networks that prevail in Leeds. Instrumentalist networks also appear to be more economically powerful when they are delocalised, as has been the case in Leeds and Toronto (and only recently in Sheffield), and particularly where they link into networks outside the city. In contrast, in Montréal and in Sheffield up until the mid-late 1980s, much of the non-ethnic- based community was structured around neighbourhoods and residents associations which (as well as being compromised by the state) restricted their scope and enforced a narrow closure on the networks.

Although levels of associationalism varied across the four cities, in all cases the business community was not engaged effectively on a collective basis to address citywide economic and social development issues until very recently. Throughout the 1970s, 1980s, and even most of the 1990s, the business community in all four cities generally came together, if at all, to fight taxes or oppose some government measure. Indications are that their mobilisation and engagement on broad citywide issues may derive from a recognition of the increasing importance of issues like quality of life and the local macro-economy on attracting and retaining skilled workers. Whatever the reason, it suggests there may be a new model of private-sector-led, associative governance emerging in cities, one that relies on strong community networks and bridging between the business, state, and community sectors.

In terms of societal structure, the case study findings indicate a clear divide in the nature of society in the well-adjusting cities (Leeds and Toronto) cities and the poorly-adjusting ones (Sheffield and Montréal). Where bonding forms of community prevailed – in Montréal and, until recently, Sheffield – societal institutions were dominated by the state. In Leeds and Toronto, by contrast, the fragmented, networked community structures operated in a context of predictable institutional environments and *laissez-faire* or, arguably, weak states. Thus, whilst Sheffield and Montréal experienced top-down economic development policy, in Leeds and Toronto, the private sector operated within a basic, broad rules framework. It appears from our evidence, however, that corporatism – a process by which the state enters into an implicit compromise, often in relation to a pro-growth agenda, with large representative groups like business and unions – may exist side by side with various configurations of society and community. Indeed, the charge of corporatism has been levelled at Montréal (in particular the relationship between the province, the unions, and the provincial crown corporations), Sheffield (the relationship between the City Council and the unions in the early 1980s and, later, their relationship with the business sector through SERC), Leeds (the initial Leeds Partnership gave rise to the idea of Leeds as a "corporate city" [Haughton and Williams, 1996]), and more recently in Toronto (through the City Summit Alliance).

In the absence of many, well-organised and mobilised interest groups, there is greater potential for powerful elite networks to enjoy privileged access to the state through such corporatist relationships. This raises the risk of narrow interest groups capturing or at least unduly influencing key institutions of society. Thus, an important role of the state may be to mobilise and support community. Indeed, the evidence from our case studies suggests that cities have been active in supporting the development of community, although the underlying pattern of this finding is unclear. Where the society has been strongest there appears to have been greater efforts to construct community. This is most apparent in Montréal, where the Quebec provincial government has had a policy of supporting an active civil society since the 1960s, and where community economic development initiatives have been strongly state supported. It has also been the case in Sheffield, which helped organise residents associations in the early 1980s and which, more recently, has been active in supporting the capacity building of community groups to participate in the city's local strategic partnership (LSP). By contrast, in Leeds community groups were not seen to be given the same level support from the City Council, and tended to be avoided if possible and tolerated if necessary, within the economic agenda of the local strategic partnership. In Toronto, community groups were fighting to survive amidst federal and provincial budget cutbacks and a local government that lacked the resources to engage with them on city-level economic development issues.

These findings on the role of society in structuring community seem to go against our hypothesis that a well mobilised community in interaction with societal institutions leads to optimal outcomes. However, it is important to bear in mind two caveats with respect to these results. First, in Sheffield (during the early 1980s) and especially in Montréal, the state's support for community came at the expense of community's independence. Thus community was essentially co-opted by the state, primarily for political ends (and in the case of Montréal also as an efficient local-level service delivery mechanism). Arguably, this may be a price worth paying for having a well organised, capacitated community. But it does mean that the benefits of community in these cities was at least partly offset by their (at least partial) loss of objectivity, and their potential be used for political ends. It also had the effect, at least in the case of Montréal where the relationship between community groups and the state has been long-established, of stifling their self-mobilising capacity and acting as a barrier to bridging across groups. Second, Sheffield and Montréal were fortunate to have access to substantial funding from higher tiers of government to support the development of community. In Montréal this came from provincial government; in Sheffield from national government (Single Regeneration Budget) and, most importantly, from European Structural Funds. In Leeds and Toronto this has not been the case. The strength of networks in Leeds and Toronto has meant that both cities still maintain active communities, but the lack of funding has resulted in their efforts tending to be more fragmented and potentially less effective on a citywide level. Interviewees in Toronto indicated that one of the most important factors restricting collective action in the business community has been the lack of funding from government for projects around which the community can engage. At least for the business community, Leeds has been a bit more of a middle ground, with the City Council and the Chamber of Commerce working together to catalyse a number of sectoral or cluster initiatives. As a result, business networks in Leeds have been more effective than in Toronto in organising and acting at a citywide level.

7.4 THE IMPACTS OF COMMUNITY AND SOCIETY

7.4.1 The impacts on micro-economic exchange

It has been difficult to get clear evidence from the case studies that community and society institutions have had an effect of lowering transaction costs. We have, however, uncovered substantial support for the role of institutions, particularly of community networks, in facilitating various aspects of micro-level exchange. The results of the case studies support our hypothesis that bridging forms of community are critical to supporting microeconomic participation, learning and innovation, and through this, facilitating positive economic outcomes. This can be seen at two levels.

Most fundamentally, we find a very sharp division in the outcomes that result from bonding and bridging forms of community. This is in line with the arguments in favour of strong versus weak ties for facilitating innovation, adaptation, and growth (c.f. Grabher, 1993; Saxenian, 1994). Where bonding is the predominate form of community networks – as it was in Sheffield and Montréal during the 1970s and 1980s – labour markets functioned less effectively, the benefits of external economies emerging from local suppliers and customers were limited, and the production and adaptation of knowledge was constrained. This seems to support our concerns about the blocking effects of community outlined in Chapter 3. These negative consequences of bonding community result largely from network closure, specifically the nature of that closure which in Montréal was defined by ethnolinguistic identity and in Sheffield by local geographical and industry boundaries. In both cases, network closure placed tight bounds on the process of search (for exchange partners and information), which likely had a negative impact on cost as well as productivity.

The impact of narrow bonding networks was clear in the labour market outcomes of Sheffield and Montréal. In the case of Sheffield, the fact that most networks shared industry and locality in common closed off access to information on labour market opportunities outside the city or outside the traditional industries. Tight family and community bonding restricted labour mobility, limiting further the potential for individuals to respond to changing economic circumstances. In Montréal, the labour market was bifurcated by language, which severely reduced the potential for efficient matching and, at least in the case of Francophones, virtually eliminated the potential for interregional mobility to serve as a mechanism of adjustment. Whilst the labour unions in Sheffield played a positive role in supporting the integration of new arrivals in the city, in Montréal their tight Francophone communal ties made them a source of exclusion against immigrants and Anglophones in the city. Labour market efficiency was further weakened in Montréal by societal institutions that raised barriers against non-Francophones, including regulations limiting immigrant workers' access to construction jobs and language-based restrictions to public sector employment.

In addition, the narrow radius of trust resulting from these tight bonding networks is also likely to have contributed to higher costs of search, monitoring, and enforcement in Montréal and Toronto. Although the case studies do indicate a link between the prevalence of bonding community in these cities and lower levels of generalised trust, our findings do not show clear evidence that the transactions costs here are indeed increased in these situations. However, both in Sheffield and Montréal we see relatively low levels of entrepreneurship and of firm dynamism (i.e. start-ups growing beyond the small business stage) – both have tended to rely on relatively large, stable firms. Much of this can be explained by the lack of a culture of entrepreneurialism in these cities, but the lack access through social networks to a diverse business 'ecosystem' (suppliers, support services, partners) is likely to have exacerbated the situation in both cities. In Sheffield in particular[56], but also in Montréal, the main industries relied largely on internal economies of scale to maintain competitiveness, and benefitted little from the localisation and urbanisation economies.

Our case studies also suggest a link between bonding community and lower levels of innovation. This is most obvious in the case of Sheffield, where lack of access to networks outside the city and existing industries, combined with low levels of trust within existing networks, restricted collaborative engagement and impeded the flow of new knowledge into the city. The effects of this were seen in low levels of new product innovation as well as the continual reliance on outmoded production techniques, particularly in the cutlery sector. In Montréal, polarised communities acted as a block on collaboration between Anglophone and Francophone firms; it also created a significant language divide amongst the universities, further restricting knowledge flows. As ethnolinguistic divides have reduced and the relative dominance of bonding forms of community has waned over the past decade, levels of innovation have increased quite dramatically. Finally, the poorly functioning labour markets resulting from bonding community, mentioned above, may in turn have contributed to the lower levels of investment in human

[56] In the case of Sheffield, the cutlery sector traditionally operated as an industrial district with substantial firm interdependency. However, by the mid 1970s, this mode of operation was almost fully replaced by a mode dependent on internal economies of scale (Hayter and Patchell, 1993)

capital evident in both cities. This in turn will have had a significant impact on productivity as well as on the cities' ability to absorb and adapt new technologies.

Our case studies appear to give stronger direct evidence of the negative consequences of bonding than they do for the positive impacts of bridging forms of community in processes of microeconomic exchange. However, several important findings do emerge. First, in both Leeds and Toronto, interviewees stressed the importance of "overlapping networks" or "networks of networks". In network theory this is linked to the idea of "weak ties" (Granovetter, 1973) and of the well-known "six degrees of separation" (Milgram, 1967). Such networks help avoid closure (whilst maintaining at least some basis around with community can bind) and ensure heterogeneity. It is this diversity – the social, technological, geographical, and economic distance over which such networks operate – that may be the key to facilitating dynamism and adjustment (Bathelt, 2001). Within labour markets these networks appear to support access to opportunities throughout the city and across industries, as evidenced in both cities by dynamic labour markets with high levels geographical and sectoral mobility and substantial turnover. Both cities, and Toronto in particular, have been cited as being "welcoming" from the perspective of integrating new arrivals into local labour markets and business networks. This may in part be attributable to having open community networks, but equally is likely to be linked to the societal environment[57] in these cities as well as, potentially, deeper cultural factors. In the case of Toronto, bridging networks were completed by an extensive public transport system, which facilitated labour mobility around the city and was cited as being an important contributor to cohesion across communities.

In Toronto in particular, we have evidence of relatively high levels of generalised trust (especially for a metropolitan area with substantial ethnic fragmentation). This trust, combined with the openness of networks, appears to have played an important role in facilitating access to knowledge in both cities. Whilst neither Leeds nor Toronto score particularly highly on standard measures of innovation (e.g. based on patent filings), they have both been successful in attracting innovative firms and in growing the more innovative sectors of their local economies. This suggests that the 'openness' which comes from bridging community might contribute more to enabling the adaptation and assimilation of new knowledge than the production of it. More

[57] In particular the levels of democratic participation

broadly the diversity of networks in Leeds and Toronto is likely to be a function of the diversity of their respective economies, but it also contributes to that diversity by joining up entrepreneurs to a variety of opportunities and "structural holes" through which to exploit them(Burt, 1995). Certainly, there is evidence to suggest that cities like Leeds and Toronto – whose communities are highly open to global markets and influences – are more attractive places for entrepreneurs to identify market opportunities than culturally-isolated cities with inward-looking communities, as both Montréal and Sheffield were during the 1970s and 1980s.

Within our concept of bridging community, evidence from our case studies suggests there may be finer differences in the degree to which different types of bridging impacts microeconomic exchange. Specifically, we find that networks which are more economically instrumentalist ('Olson' communities) have a greater impact than those whose purpose is more social in nature ('Putnam' communities). In mapping the numbers of formal associations and groups in all four cities, Leeds and Toronto had substantially greater relative numbers of 'Olson'-type groups, whilst Sheffield and Montréal had more 'Putnam'-type groups[58]. We also find more evidence of active, self-mobilised networks within the business communities of Leeds and Toronto at least up until the 1990s (at which point sectoral and cluster groups became well established in Montréal).

7.4.2 *The impact on institutions and processes of adjustment*

A number of important findings emerged from the case studies with regard to factors of community and society which contribute to (or detract from) the processes of economic adjustment in cities. We summarise these in this section.

Many authors have cited the importance of entrepreneurial risk-taking as a catalyst for growth and adaptation (c.f. Schumpeter, 1926; Grossman and Helpman, 1991; Aghion and Howitt, 2006). Evidence from our case studies supports their important role, particularly in facilitating economic diversity and firm-level dynamism. In line with the arguments of Jacobs (1961) and Florida (2002), our case studies suggest that a city's level of entrepreneurialism may itself be a function of diversity, which may derive from demographic or sectoral sources. In Toronto, sectoral diversity

[58] Note that this data is from 2008; anecdotal evidence from interviews and secondary research indicates that Sheffield and Montréal had relatively fewer of both types of bridging community groups than Leeds and Toronto during the 1970s and 1980s.

and high levels of immigration have contributed to high levels new firm formation. In Leeds, many of the entrepreneurial ventures that triggered the start of new industries were initiated to serve existing local industry; so diversity had a cumulative effect. In both cities, instrumentalist social networks supported start-ups by giving low cost access to a wide range of support services. Critically, this was also supported by local government policies which promoted, or least avoided stifling, entrepreneurship. In Leeds, for example, this included policies targeted to support small business, including the establishment of venture capital in the early 1980s. Sheffield and Montréal, by contrast, saw entrepreneurialism suppressed by a long history of employment in large firms (Sheffield) and government or state-owned enterprises (Montréal) which crowded out entrepreneurial opportunities, and lack of access to networks that could open up such opportunities. In Quebec, at least, the government had a long-standing commitment to social entrepreneurship and more recently has invested substantially in making venture capital available to local entrepreneurs; in Sheffield support for social entrepreneurship has been weak.

More broadly, our case studies strongly support the importance of heterogeneity in facilitating adaptation and suggested some important links between diversity (in all its forms) and a strong, balanced community and society. By giving access to a wider range of knowledge and promoting a greater degree of experimentation, diversity should support innovation and adaptation. In Leeds and Toronto this resulted from demographic and sectoral diversity. In addition, in the case of Leeds, the wide municipal boundaries were noted to have allowed for significant policy diversity, allowing for greater experimentation in terms of policy responses to the economic and social challenges of growth. Heterogeneity – of political positions and of voices – also played an important role in ensuring that the city learned from these experiments and adapted as a result of them. It did this by preventing elites from having sufficient power to block innovations. In Montréal, by contrast, the institutional structure placed barriers on both the acquisition of knowledge and the response to it. This resulted from the polarisation of communities and the centralising tendency of provincial government, which prevented local community groups and governmental units from interacting at a horizontal level, blocking information flows and concentrating power at provincial level. In Sheffield, not only were business and social networks excessively narrow, but the centralised political structure of the local Labour Party and the lack of any degree of political competition up through the 1980s were significant barriers to innovation at the policy level. Moreover, should innovations make their way into networks, the existence of an entrenched elite business class and a dominant political party, both of which favoured the status quo, served to block the likelihood of their being put into productive use. This is in line with the political economic theories of growth outlined by Acemoglu and Robinson (2000) and Acemoglu and Johnson (2006).

Indeed, the critical role of elites in the economic production of wealth and the political redistribution of it was evident across all four case study cities. In all cases elite networks, particularly from the business and political communities, were viewed by most interviewees as determining the responses to economic and social change. In Leeds and Toronto, the political elites could be characterised as 'middle class'; in both cases there are strong elements of an urban cultural elite. Both were broadly supportive of growth and, perhaps as a result of sectoral diversity, there was little pressure from the entrenched elite to maintain the status quo (although many interviewees argue that the benign economic situations in both cities bred a culture of passivity amongst the business and political elite). This allowed both cities to engage in policies that supported the broad business environment and achieved a balance between traditionally important sectors (manufacturing and distribution) and future sectors like financial and business services. In Toronto this involved business support services, innovation support (R&D funds and technology centres) and property development. In Leeds in came through support for SMEs, targeted area support, support for females entering the labour force, and a strategy to develop the inner city property market to support high end service industries.

However, in neither Leeds nor Toronto did the city focus considerable effort on issues of redistribution and equity during this period. And in neither city were the business elite engaged in citywide economic development issues; still less so in the potential negative social consequences of some aspects of development. As both cities adopted a much stronger growth and competitiveness agenda during the 1990s, issues of redistribution were pushed further to the back, which may have contributed to the growing social and economic divides being experienced in the city today.

Sheffield and Montréal both experienced 'revolutions' during the period covered in these case studies; this had an impact on the structure of elite networks, although many of the elite – particularly within the business community – remained powerful even following these structural changes. In both cases, however, there is evidence of the elites blocking innovation. In Montréal, Anglophone business networks fought or ignored highly inequitable economic outcomes between the Francophone and Anglophone communities. But in introducing change after the Quiet Revolution, the new Francophone elite in the city focused primarily on redistribution and quickly became agents for the new status quo. The result were provincial policies that focused on transferring power in *existing* economic spheres to a new Francophone business class and boosterist city investments that were little more than political imageering, rather than creating an environment to support economic sectors that would be needed in the future. In Sheffield, too, change in the personalities in power did little to alter the mode of operation which favoured redistribution on behalf clients rather over economy-wide productivity. The City's Council's main instrument to fight structural change in the early 1980s was its Department for Economic Development, whose resources were largely devoted to protecting and creating male, working class, manufacturing jobs, rather than focusing on building the skills and environment needed to adapt to changing bases of competitiveness. The cases of Montréal and Sheffield underscore the importance of a variety of strong communities, along with institutional structures that provide a constant check on those groups which have the greatest influence on the reins of power.

Our case studies suggest that societal institutions which facilitate community participation – what we call 'bridging institutions' – are an important component determining a city's ability to adapt over the medium and long term. This is because bridging institutions, by levelling the playing field and giving voice to all communities, help ensure that inevitable differences over redistribution (both in terms of the balance of redistributive versus productive investment and in terms of the specific forms and allocations involved) are resolved in ways that are acceptable to all communities and do not spill over into conflict or trigger blocking behaviour. As outlined in Chapter 3, the willingness of communities to sacrifice for the greater good in the short term (in a *quid pro quo* relationship over time) is fundamental to allow a territory to make the critical adjustments that enable growth in the long term. Indeed, this is a macro-level form of the generalised reciprocity that is the foundation of social capital (Putnam, 2000). The local strategic partnerships in the UK case examples provide the best evidence of the value of these bridging institutions. In Leeds, which operated their LSP (The Leeds Initiative) since the early 1990s, the partnerships have been credited with facilitating a consensus on the broad direction of the city's growth and have been credited with helping to keep the city on its 'high road' growth path. In

Sheffield, the LSP (Sheffield First) was praised by virtually all interviewees, who indicated it has been vital to the city's economic resurgence over the past decade.

The secondary benefit of these bridging institutions is that they have helped strengthen community groups and promote mature forms of participation. This is demonstrated most clearly in the case of Sheffield, where the LSP has been a central point around which community groups have built capacity and engaged (in many cases for the first time) at the citywide level. They have also forced the business community to engage with the community sector, a process which is important to building local trust and opening networks, but one which has been a challenge in both cities.

The cases of Leeds and Toronto, particularly in contrast to Sheffield and Montréal, seem also to indicate the importance of a consensual political environment for aiding processes of adjustment. In both Leeds and Toronto, interviewees and existing studies make much of the pragmatic nature of the political environment and the long tradition of compromise and cooperation. This appears to be related to both community structure and societal rules. The lack of sharp community cleavages – of *polarisation*, either in ethnicity, language, class, or other components of community – tends to limit the divides that block compromise. This is not the same thing as homogeneity. Indeed, Toronto in particular, but also Leeds, encompasses communities with significant heterogeneity of preferences. It may well be because the spectrum of preferences is wide that compromise is not only possible but required: where there is substantial diversity of preferences, no single group is likely to get their optimal outcome, and so will be expecting negotiation and compromise. In Montréal, polarisation of community identity blocked negotiation. Where compromise was equated with loss, and interpreted as having negative consequences on the identity and indeed survival of a community, engagement was not possible, and so problems remain unresolved and adjustments delayed. This can be seen in the recent merger / demerger saga which has had significant negative implications on the effectiveness of municipal government operations.

The politics of compromise in Leeds and Toronto may also have been enabled by a "middle class consensus" (Easterly, 2001) that acted as a binding force for otherwise heterogeneous communities. Both cities are characterised not only as having relatively high shares of middle class residents, but perhaps more importantly have a reputation of being highly capitalist. Whilst most residents of Sheffield and Montréal are there because they were born there and feel an intrinsic affinity with the city, in Toronto (and somewhat less so in Leeds) people tend to be there in order to exploit economic opportunities. This has the effect of creating a general consensus for policies that promote growth over those favour redistribution. Interestingly, however, this has not necessarily resulted in boosterism; indeed, in both Leeds and Toronto interviewees from the business community, at least, generally complained that their cities were not active enough in development. Instead, the focus was more about putting in place an environment that facilitated private sector investment. This was most apparent in Leeds, exemplified by its notoriously loose planning regime. The downside of the middle class consensus is that Leeds and Toronto avoided investing in redistributive institutions (e.g. to support the integration of immigrants in Toronto or to ensure affordable housing in the centre of Leeds), perhaps contributing to the growing levels of inequality being experienced in both cities. In Sheffield and Montréal, by contrast, the growth and equity agendas have generally gone hand in hand. This might be a result of strong bonding community in these cities.

Finally, the pragmatic and consensual problem-solving environments in Leeds and Toronto also appear to be facilitated by competitive political environments. In both cities, different political parties have been in power – or in some cases have shared power – over the period covered in these case studies. Interviews from both cities suggested that political competition is partly attributable for the bi or multi-partisanship that has been common in both city councils. By contrast, in Sheffield, the dominance of the Labour Party precluded the need for such compromise until the end of the 1990s, and still today the working relationship across parties in the Council is strained. Whilst in Montréal, Mayor Jean Drapeau controlled the *Hôtel de Ville de Montréal* from 1960 through 1986 and was able to run the city as his personal fiefdom. Many argue that planning processes in the city continue to be dominated by the executive with few meaningful checks on the interests of powerful stakeholders.

Finally, our case studies point to a role for multilevel governance in providing an effective societal environment, and possibly in supporting bridging community. This evidence comes mainly from the cases of Leeds and Sheffield. In both situations, partnerships between the local government and the business community in particular (as well other actors), was catalysed by the imposition of institutions, organisations, or policies from higher tiers of government, in particular the Urban Development Corporations, Training and Enterprise Councils, and (in the case of Sheffield), European Union. These external institutions also appear to have disciplining effects on local community and society, by forcing transparency and processes which help ensure appropriate checks and balances.

7.5 SOME FINAL OBSERVATIONS: ON TRUST, PATERNALISM, AND CIVIC LEADERSHIP

Finally, our case studies provide important evidence for the role of both community and society in engendering (or undermining) generalised trust, and the impact this has on the functioning of economic and problem-solving institutions. They also raise interesting questions about the role of individual leaders in mobilising community.

Data and anecdotal evidence from the case studies upholds the negative association between bonding forms of community and trust. It also indicates a potential positive link between trust and diversity (demographic and sectoral). In the case of Sheffield, narrow social networks combined with limited sectoral diversity resulted in a competitive local economic environment which undermined trust and so prevented collaboration. Trust was further weakened by the conflictual political environment (between the business sector and the city council). In Montréal, too, the city faced a vicious circle of low trust brought about by the polarisation of communities, political conflict, and the control of institutions by one community. As was referred to earlier, the low trust environment had an impact both on processes of microeconomic exchange in these cities (our evidence is principally related to low levels of collaboration) as well as the problem solving environment, with low trust contributing to hold up processes of adjustment. In Leeds and Toronto, generalised trust is higher, which appears to facilitate (and is facilitated by) greater interaction and collaboration across networks; it also appears to be an important factor in the consensus politics of both cities.

Indeed, our case studies suggest there may well be a circular causation that runs between bonding community, distrust, and state-dominance of societal institutions (which, because of the structure of community, in many such cases come to be co-opted on behalf of individual communities). A good example of this is in Montréal, where the lack of trust between the Anglophone and Francophone communities essentially led both communities to seek protection from the state (despite the fact that the state itself, at least at the provincial level, came to be dominated by the Francophone community). This contributed to the growth of the Quebecois (and Montréal) bureaucracy, which came to dominate most societal institutions and is seen by many as a barrier to individual and collective action. This finding is in line with Aghion, et al. (2009) which argues for a vicious circle whereby distrust leads to a demand for greater state regulation which, in turn, discourages investment in social capital.

This is perhaps linked to another finding which emerged from the case studies, regarding paternalism[59]; specifically how it emerges from different forms of community and society, and its implications on the functioning of institutions. In our examples there is a link between places with strong bonding community (Sheffield and Montréal) and paternalistic governance. In Montréal paternalism came through Mayor Drapeau and the provincial government machine, which engaged in patron-client relationships with community groups (e.g. the CDECs) and the business community (through peak associations and the *patronat*). In Sheffield, it was embodied variously in City Council elected leaders and Chief Executives. The degree to which paternalism is a product of bonding community, however, is less clear. It may well be the case that these are both outcomes of deeper, cultural factors. In any case, in both Sheffield and Leeds the acceptance of paternalistic relationships seems to have contributed to allowing the state to dominate societal institutions, with implications for efficiency and problem solving. It may explain the ability of the state in Sheffield (in the Blunkett era) and Montréal (in the Drapeau era) to engage in radical or redistributive policies without fear of dissenting voices or institutionalised checks and balances. Paternalism would also be expected to have negative implications for self-mobilising capacity of community over time. On this latter point, however, it should be noted that in both Sheffield and Montréal, the state has made significant efforts to build structures for community participation.

But paternalism is in many cases related to leadership. Indeed, it often has a strong figurehead at the top of the hierarchy. Thus despite seeming to be normative opposites, there may well be a link between paternalism and the concept of the 'civic entrepreneur'[60]. Across the case study cities there was a sense that institutional structures alone were insufficient to mobilise communities,

[59] Defined as a hierarchical governance structure, which governs with actions and policies toward their subordinates that are seen to be 'for their own good' – essentially benevolent but generally denying rights and responsibilities.
[60] Leaders or 'change agents' who may mobilise the community and typically engage in action intended to benefit the entire community.

that leadership was critical. The case of the Toronto City Summit Alliance is perhaps the best example of civic entrepreneurship in action, with the strong leadership of David Pecaut widely regarded as critical to the newly-emergent associative governance in the city. Similar, although smaller-scale, examples were found in Leeds through private-sector initiated projects like Leeds Ahead and the proactive engagement of business leaders in a range of other initiatives. Interestingly, however, business and community leaders in Leeds bemoaned the city's lack of a strong, figurehead leader. But must such leadership come only from the private sector? In the case of Sheffield, the most recent City Council Chief Executive Bob Kerslake was widely hailed as a critical force for mobilising community, achieving consensus (not necessarily compromise), and driving action through the state bureaucracy. In many ways he has all the makings of a civic entrepreneur like David Pecaut (who, like Kerslake, is unelected but unlike Kerslake, is not vested with any formal powers, merely influence) but he is also the product of paternalism. And so, whilst such leaders appear to be critical, there also seems to be a danger – identified by interviewees both in Sheffield and in Toronto – in relying on any one individual. This danger comes in the form of excessive concentration of power as well as in the sustainability of initiatives in the absence of the individual. Ongoing adaptation may require a leader to catalyse action from time to time, but it also seems to require "lots of little entrepreneurs" (personal interview, G. Bridge, 26 August 2008) constantly pushing the boundaries, and active communities and sound institutions keeping them in check. This broad question of leadership and paternalism may well be another 'black box' for further research.

Chapter 8: Conclusions and suggestions for future research

8.1 INTRODUCTION

This chapter reviews the main findings presented in this thesis. It draws on the results of the quantitative analysis covered in Chapter 4 as well as the findings of the case studies discussed in Chapter 7. The conclusions are reviewed in the context of the research questions and specific hypotheses introduced in Chapters 1 and 3. We then comment briefly on the contributions and implications of the thesis to ongoing research and policy debates. Finally, we discuss the limitations of the work and suggest some potential future areas for research.

8.2 SUMMARY OF MAIN FINDINGS

The main findings presented below are organised by the two primary research questions we sought to answer at the outset of this thesis, and within each of these questions, by the specific hypotheses we put forth. A more detailed discussion of each of the findings presented here can be found within the discussion of results of the quantitative research (Chapter 4) and / or the case studies (Chapter 7).

8.2.1 *Research Question 1: To what degree do both community and society contribute to long run economic development and how do they interact?*

Hypothesis 1: Community and society both shape the institutional outcomes that are the sources of the quantity and quality of long run growth

- Both community and society are shown in quantitative analysis to be independently associated with a number of institutional determinants of growth. The qualitative case studies suggest several specific components of community and society that are linked closely with processes of growth.
- Societal rules in most cases contribute positively to economic outcomes. The impact of community is more mixed: bridging forms of community generally contribute positively,

whilst bonding forms of community are more likely to have a negative impact on macro-level outcomes.

- Evidence from the case studies supports a causal effect between community and society and institutional outcomes. However, it suggests there may also be a reverse causal relationship. This appears to be particularly strong in relation to societal rules. Factors such as levels of economic growth and development, sectoral diversity, and human capital appear to have strong, reflexive relationships with community and society.
- Societal rules and bridging community are associated not only with more growth but higher quality growth. However, this comes with the caveat that our quantitative and qualitative research suggests a positive correlation between the quantity and quality of growth. So the independent effect is unclear (i.e. the direct relationship may be with growth levels, not quality). Indeed, some evidence from our case studies suggests that cities that have grown most rapidly experience concomitant increases in income inequality, although it is unclear whether this is the result of growth per se or of the policies pursued.
- Leadership is critical to mobilise communities to engage in processes that determine long run development paths. Bonding communities tend to be highly paternalistic; strong, top-down leaders, typically from within the state, tend to dominate institutions where bonding communities prevail. This can be positive in terms of action, but it is not necessarily growth-promoting in the long run. Where bridging prevails and the state is weaker, widespread community mobilisation is often a bigger challenge – individual coalitions emerge but the impacts may be fragmented. Civic entrepreneurs appear to have a critical role to play in bridging communities (and linking them to key institutions) in these societal environments.
- Factors like geography, human capital, and sectoral specialisation clearly have a major impact on growth. But they are not mutually exclusive of institutions. Mindful of the risk of infinite regress, the evidence from our case studies suggests a process of dynamic co-evolution, between communitarian and societal forms of institutions and specialisation and human capital. The prevailing institutional arrangements shape individual levels of investment in human capital, the incentives for firms and entrepreneurs to diversify, and the industrial policy environment. But the policy

environment is also strongly shaped by the existing sectoral structure (and the networks that derive from this) and the stock, specialisation, mobility, and outlook of local human capital.

Hypothesis 2: Community and society are not substitutes but are complementary – community is not simply a 'primitive' force to be replaced by the 'modern' force of society

- Community and society interact and in doing so, structure each other. The strength and nature of their interaction is very much dependent on the type and strength of each force. In other words, the effects of community depend on the societal environment it operates in, and vice versa.
- Community has a greater impact when society is weak. This lends broad support to the idea of community as a substitute or 'second-best' alternative to society. The relationship between the two is complementary, but it may be either potentiating or offsetting. Society acts in most cases as a disciplining force on bonding community, attenuating what would otherwise be negative outcomes. However, in some cases bonding can act in concert with strong society, facilitating consensus and promoting greater investments in public goods. Societal rules tend to act in synergy with bridging forms of community, particularly in areas of innovation and microeconomic exchange. But active bridging communities can also be an effective substitute where societal institutions are weak.

Hypothesis 3: Social structure matters – in the absence of bridging, fragmentation of community will hinder development; societal rules are critical when communities are polarised

- Heterogeneity has both positive and negative impacts. In most cases fractionalisation – particularly ethnic and language based – reduces trust, confidence, and participation, and leads to negative institutional outcomes. This is particularly true in the absence of strong, independent societal institutions, without which diversity seems to favour bonding over bridging forms of community.
- It is not really fractionalisation per se that matters but polarisation –i.e. the existence of two or more strong communities with widely differing preferences. Where communities are polarised, a strong rules environment is needed to discipline them. In

the absence of this, there is a risk of one community taking control of the institutions of society, which can have long term consequences for growth and adjustment.

- There is a difference between fractionalisation and heterogeneity. Evidence from our case studies lends strong support to the positive relationship between heterogeneity – particularly sectoral, but also in some cases demographic – and positive institutional outcomes. Whilst diversity can lead to polarised communities where societal rules are weak, when society ensures a level playing field, diversity extends the scale and scope of networks available and can facilitate processes of compromise within problem solving institutions.

8.2.2 *Research Question 2: Through what mechanisms do community and society shape long run growth paths?*

Hypothesis 4: Community and society impact the levels of individual economic participation (labour force activity, investment in human capital, entrepreneurship), the transactions costs involved in exchange (search, selection, monitoring), and the rate of technological progress (innovation)

- Overall, we find limited direct evidence in either our quantitative or qualitative research, of a link between community and society and transactions costs – i.e. we are unable to say whether or not there is a relationship. This is in a large part due to the structure of this research (see further discussion in "contributions and limitations").
- Bridging networks are critical to supporting an efficient microeconomic environment and facilitating innovation. The greater their diversity and the more they overlap ('thick' networks), the more access they provide to a wider variety of information and opportunities. This appears to promote greater labour market participation and is particularly critical to support innovation and learning. In contrast, bonding forms of community appear to reduce participation in labour markets and entrepreneurial investment, and reduce innovation. Evidence from our case studies suggests that bonding communities can be effective to facilitate positive economic outcomes within specific networks. However, it seems that bonding communities are more likely to support strategies of coping than of growing –i.e. community as 'getting by' rather than

'getting ahead'. Moreover, the evidence suggests that micro-level benefits of bonding networks do not accrue at the macro level, and indeed may even detract from overall societal growth potential.

- More instrumentalist networks (Olson types) appear to lead to better microeconomic outcomes than networks designed for non-economic purposes (Putnam types). Still, both types of bridging community are essentially positive with respect to the quantity and quality of growth.
- Trust is a fundamental factor underpinning these bridging networks. Generalised trust appears to be higher where bridging networks prevail; whilst where bonding prevails levels of generalised trust are lower. Trust appears to be critical for facilitating participation and innovation, as well as for enabling the types of engagement and compromise required for the effective functioning of problem-solving institutions. The direction of causality of this relationship is not clear. Indeed, it is likely to be recursive.
- The positive impacts of bridging are also supported by a stronger societal environment. The quantitative results show this to be particularly true in the areas of trust, labour force participation, and innovation. The case studies do not give a clear reason for why this would be the case. However, we can conjecture that it may be that bridging networks operate more effectively (e.g. wider in scope and scale, more trusting) when society is strong, or that the profit incentive that encourages individuals to make use of bridging networks (for engaging in innovation, investment, or labour market participation), is expected to be higher or less at risk in a stronger rules environment. It may also be that bridging forms of community are critical to complement formal institutions in environments of uncertainty, for example near the technology frontier.

<u>Hypothesis 5: Community and society in interaction are the sources of public and semi-public goods (e.g. trust, participation, equality, conflict management institutions) that play a fundamental role in the functioning of the problem-solving institutions which are critical to processes of adaptation</u>

- Society appears to be important in controlling the power of elites. It also plays an important role in levelling the playing field for participation in problem solving institutions and policies related to growth. Where society is weak (particularly where it does not offer effective voice and accountability), elites have privileged access to institutions. Particularly where bonding forms of community prevail, there is a strong likelihood that these elites will act to block processes of adaptation. But where rules are transparent and fair and where institutions offer opportunities for communities to express their preferences, elite blocking tends to be less successful. This not only facilitates adaptation, but has a recursive effect on community, motivating greater mobilisation and participation, and making it easier for communities to bridge.

- However, whether fully democratic participation of communities is linked with higher growth levels is not clear from our case studies. In most cases there remains even today a fairly corporatist relationship (especially between business and the local government). The difference is that where entrenched elites (from a single industry or a single ethnicity) control the institutions, change tends to be blocked and so occurs in fits and starts. Where there is a more diverse set of interests engaged, the resulting policies appear to facilitate smoother processes of adjustment.
- Consensus or compromise politics is important to promote adaptation. It can be supported by either bridging or bonding forms of community (although in the latter case only in relatively homogenous societies; polarisation undermines it). But it requires strong generalised trust and societal institutions that have the confidence of all actors. This is possible only where there is sufficient political competition. Through bargain, sacrifice, and compromise, competition allows for a smoothing of the processes of adjustment. In the absence of this, adjustment processes tend to get held up.
- A broad societal consensus on growth versus redistribution seems to facilitate compromise politics, allowing for bargaining to focus on the specifics of policy rather than its general direction. This is not possible in polarised environments. In our case studies we have seen a 'middle class consensus', which favours policies of growth over redistribution, linked to greater overall growth levels. Whether this is sustainable over long term without alienating some communities is unclear, and so generalising on the normative value of the middle class consensus is not possible.
- There appears to be a vicious circle between distrust and statism. In our case examples, particularly in the case of Montréal, we find generalised distrust (resulting and contributing to a propensity for bonding over bridging) contributing to greater levels of state control over economic and social institutions. This in turn seems to raise the risk

of institutional capture on behalf of one community or, at the very least, of politicisation and increasing bureaucratisation of institutions. The effect tends to be a recursive stifling of bridging forms of community and strengthening of society, with negative effects on dynamism and adjustment.

- But there may also be a virtuous circle, related to heterogeneity. Our case studies suggest that diverse economies tend to have more bridging networks and a stronger societal rules environment. As a result there tend to be fewer entrenched conflicts, allowing for policies which support further diversification.

Hypothesis 6: The balance between community and society shapes responses to exogenous change – greater imbalance is likely to lead to more rapid, unstable adjustment

- Where bonding communities prevail, an imbalance with society is likely to emerge as a result of the circular causation discussed above. This raises the risk of the capture of societal institutions by one community (e.g. an elite business network or an ethnic group). The result here is an unstable equilibrium: capture of the institutions of society is followed either by rapid change or stasis (through institutionalised blocking), each of which, in time, tends to beget the other.
- Where community is strong, but bridging community prevails, an unstable adjustment process appears to be less likely, regardless of the balance with society. Where society is also strong, the rules environment and the bridging communities support each other; where it is weak, the existence of active, overlapping communities appears to substitute for it. In either case, the diversity of the networks seems to facilitate processes of change that are more evolutionary in nature.

8.3 CONTRIBUTIONS AND IMPLICATIONS

The research presented in this thesis is built on a strong base of theoretical and empirical research across a range of academic disciplines. This includes the contributions of growth economists on the role of institutions, of sociologists and economists on social capital and trust, and of economic geographers on the relationship between local formal and informal institutional environments and processes of innovation and learning. It draws heavily from the theoretical and empirical political economy research of Acemoglu and colleagues (c.f.

Acemoglu and Johnson, 2006a; 2006b; Acemoglu, Johnson, and Robinson, 2004), which establishes relationships between processes of growth and innovation and the power and political structures in which growth-related institutions are situated. Most importantly, the thesis builds on the work of Storper (2005) and Rodríguez-Pose and Storper (2006), which develops the community-society institutional framework and posits its role in shaping economic outcomes.

What has this thesis been able to add to this existing body of work? Most importantly, by operationalising community and society and testing their relationships with institutional outcomes both quantitatively and qualitatively, we have shown that the distinction between community and society is one worth making: both forces matter but in different ways; they shape each other and processes of participation, exchange, innovation, and problem solving. By decomposing the institutional 'black box' into these components researchers should be able to get a better understanding of the specific processes by which institutions influence long run growth.

Our findings also help to explain some of the dynamics of regional growth, and particularly, adaptation processes. There has been substantial, valuable work in the field of economic geography which attempts to explain why different regions grow at different rates and why some regions appear to adapt better than others. Although local institutions have been an important feature of this research, their role has generally been limited to narrow domains (mainly focusing on innovation), and the dynamics by which they contribute have been underspecified. Our findings may open up a new route to understanding how the link between networks and formal institutions shape these adaptation processes, and introduce the important, if complex, element of political economy into the equation. It is also introduces the potentially critical role of leadership, in the form of civic entrepreneurs, in catalysing and sustaining adaptation processes. In highlighting these issues, this thesis may contribute to a growing body of research in the area of evolutionary economic geography.

Finally, our findings may also contribute to the ongoing debates about the role of community in economic development – i.e. does it matter? is it second-best? This thesis reinforces what several researchers have already pointed out: that there are very different forms of community, each of which can have positive or negative implications on processes of growth. By recognising that community is not inherently good or second-best, and that its role can only be understood in the context of the wider societal environment, our findings can help to reduce unhelpful normative depictions of community in research. And by specifying the forms and relationships of community more specifically, it can contribute to achieving more practical policy responses.

8.4 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The degree to which this thesis contributes to the theoretical and policy debates is, however, restricted by a number of limitations, related both to the scope of the thesis and the specific research techniques used. First, the thesis is relatively modest in its scope – it aims simply to show that community and society interact and structure each other, and that they impact economic growth paths by shaping certain institutional preconditions to growth. It does not, however, intend to develop a holistic growth model incorporating community and society as institutional variables. As such, the findings of this thesis tell us that community and society are important, and suggest a complex interrelationship with other independent variables (including specialisation and human capital) and intermediate dependent variables (including labour market outcomes and innovation), but they do not specify the exact nature of these relationships or give a clear picture on how important institutions are in relation to other factors. Similarly, the thesis stops short of tracing the relationship between community and society and growth, analysing the links (in a formal quantitative model, at least) only to the point of institutional intermediates.

The quantitative approach used also has a number of shortcomings, linked mainly to data limitations. First, whilst we had hoped to conduct the entire analysis at the regional level, we lacked access to the necessary data both for operationalising community and society at this level. Even after reverting to cross-country comparisons, poor data availability presents limitations to the reliability and generaliseability of the quantitative output. Specifically this relates to operationalising community (e.g. how to capture the strength and nature of informal networks) and society (e.g. distinguishing between the amount or level of society and its quality), and concerns about endogeneity in some of the measures of society. Finally, our quantitative analysis is, admittedly, somewhat exploratory. We test community and society against quite a wide range of dependent variables. Whilst the outcomes shed light on several important relationships, the approach may limit the degree to which these findings can be generalised.

The case studies allow us to delve more deeply into the nature of the relationships between society, community, and institutional outcomes and provide useful insights into the mechanics by which community and society shape adjustment processes and, therefore, growth paths. As with most case studies, the main limitation of the research presented here is the degree to which the findings show true causality running between our independent and dependent variables – in other words, how can we be sure the outcomes were the result of what we hypothesise them to be and not of something else? We have been able to tell a plausible story of how community and society shape adjustment processes, but given the complexity of the interactions, it will always be just one of many possible variations of the story.

Indeed, it is the complexity and reflexivity of the relationships – between community and society, and between both of these forces and institutional outcomes – that raises the biggest limitations for the research presented in this thesis, and more broadly for the community-society framework. As discussed earlier, there is a real risk that this research runs into the problem of infinite regress. If much of these interactions are context-specific and if the interactions themselves are recursive, developing quantitative models that have sufficient parsimony to be generaliseable will be a major challenge. For policymakers, too, the complexity and context specificity suggested by the findings of this thesis raises the risk of a resignation to relativism.

There are, however, a number of areas in which this research could be taken further which could contribute valuable insights to existing academic and policy debates, and may address some of the concerns outlined in the limitations above. An important next step will be to move beyond the institutional domains considered here and trace further how they go on to shape long-run economic development outcomes, including income levels, income growth, and income distribution. This would clarify the mechanisms through which community and society impact growth and development via the institutional pathways outlined in this thesis. In addition, the finding here that community functions differently in different socioeconomic contexts is significant; further work can now focus on the mechanics through which community and society interact in these different contexts. In doing so, further research might try to go beyond the bonding versus bridging dichotomy introduced in this thesis and probe in more detail how different forms of bridging community shape outcomes – specifically unpacking the differences between 'Olson' and 'Putnam' forms of community.

Additional light might also be shed on the links between community, society, and generalised trust, which could help us better understand the relationship between social capital and economic growth. In doing so, the two-way causality between trust and growth – an issue that is already on the agenda of social capital research – might be addressed. The community-society framework may contribute to explain more clearly how institutional outcomes (particularly in terms of problem solving and social policy) shape generalised trust and network interactions.

Additional city-region case study research would help build further evidence to test the relationships between institutional forces and processes of regional adaptation outlined here. This might be particularly useful in economic and political environments that have broad similarities to those covered in this thesis (England and Canada) but also significant differences in the nature of community structures, cultures, and the socio-political environment. Further qualitative research could also explore community dynamics in more detail and in doing so contribute to the expanding knowledge on social capital. One specific area suggested from this research would be probe the relationship between informal community networks, formal associationalism, and political participation (in all its forms). The degree to which networks with economic ends (formal and informal) are likely to also be politically mobilised (in any form) may be important to determine whether the relationship between community and adaptation is a direct or an indirect one.

Beyond the city-region case studies, micro-level studies of networks could shed important light on the role of communities and rules in processes of search, selection, and enforcement. Such research might also quantify the impact these forces have on the transactions costs of microeconomic exchange, an area in which this thesis was unable to make a clear contribution. Although substantial micro-level network research has focused on labour markets and innovation, future work in these areas could incorporate elements of the community-society framework in order to better understand the formation and functioning of such networks. Additional qualitative research on the role of leadership, particularly of civic entrepreneurs, in mobilising networks for collective action would address a 'black box' identified in this thesis and might have interesting implications from a policy perspective.

Finally, as additional data on community becomes available from ongoing social capital research, more robust models should be possible, with more focused hypothesis-testing and modelling of the relationships that are examined in an open-ended way in this thesis. This would include theorising more specifically and testing the two-way nature of many of the relationships outlined in this thesis. Availability of improved datasets should also allow for quantitative testing of these relationships at a regional level.

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Appendices

APPENDIX 1: DEFINITION OF VARIABLES

Concept	Variable	Description	Source
Independent variables			
Community: bridging	*Putnam membership*	'Putnam-type' membership: % belonging to: social, local/community, arts/education, youth, sports, 3rd world, environment, women, peace, and health organisations	Inglehart, Ronald, et al. (2003) World Values Surveys and European Values Surveys, 1981-1984, 1990-1993, and 1995-1997 [Computer file]. ICPSR02790-v1. Ann Arbor, MI: Institute for Social Research [producer], 1999. Ann Arbor, MI: Inter-university Consortium for Political and Social Research [distributor].
	Olson membership	'Olson-type' membership: sum of % belonging to: political parties, labour unions and business associations	World Values Surveys: see Inglehart, R. et al (2003)
Community: bonding	*Religious membership*	% belonging to religious organisations	World Values Surveys: see Inglehart, R. et al (2003)
	Informal bonding	Amount of time spent with friends and family. Respondents were given four options: "weekly", "once or twice per month", "a few times a year", or "never". The percentage responses for each sample across the four categories were then converted to average annual frequency for each unit[61]	World Values Surveys: see Inglehart, R. et al (2003)
Society: rules environment	*Property rights*	Property rights index: 50-point index calculated based on converting IRIS 3 'corruption',' rule of law' and 'bureaucratic quality' to 10-point scales and summing them with 'contract repudiation' and 'expropriation risk' (higher values indicates greater property rights protections)	Knack, S. and Keefer, P. (1995). "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures." *Economics and Politics*, vol. 7 (no. 3), pp. 207-227
	Rule of law	Degree to which the citizens of a country accept established institutions to make and implement laws and adjudicate disputes; values in range of 0-6 (converted in this case to 0-10 scale (higher values indicates stronger law and order tradition)	Knack, S. and Keefer, P. (1998) IRIS-3: file of International Country Risk Guide (ICRG) data [Computer file], 3rd Edition, College Park, Maryland: IRIS [producer], East Syracuse, New York: The PRS Group, Inc. [distributor].

[61] This was calculated by taking the midpoint frequency of each category and converting it to an annual amount. So for example "weekly" converted to 52 (i.e. 52 times per year), "once or twice per month" to 18, a few times a year to 3, and "not at all" to 0. A weighted average values for each country was then calculated based on the response percentages across the four categories.

Concept	Variable	Description	Source
	Rule of law (KK)	measured in units ranging from about -2.5 to 2.5, (higher values corresponding to better governance outcomes	Kaufmann, D., Kraay, A. and Mastruzzi, M. Governance Matters VI: Governance Indicators for 1996-2006 (July 2007). World Bank Policy Research Working Paper No. 4280
	Executive constraints	Executive constraints index: Polity IV indicator measuring the extent of institutional constraints on the decision-making powers of the chief executive in government, whether an individual or a collective executive; measured on a scale of 1 to 7(higher value indicates greater constraints on executive power); converted to 10 point scale	Jaggers, K. and Gurr, T.R. (2002) Polity IV Project: dataset version 2002<p4v2003d>, University of Maryland, College Park, MD: Integrated Network for Society Conflict Research Program, Center for International Development and Conflict Management.
	Political competition	Political competition: Polity IV indicator POLCOMP indicating the institutional regulation and competitiveness of political participation; measured on a scale of 1 to 10 (higher value indicates greater competition)	Jaggers, K. and Gurr, T.R. (2002) Polity IV Project: dataset version 2002<p4v2003d>, University of Maryland, College Park, MD: Integrated Network for Society Conflict Research Program, Center for International Development and Conflict Management
Control variables			
Controls	*Technology frontier*	Capital intensity of economic output	Hall, R. E. and Jones, C. I. (1999). Why do some countries produce so much more output per worker than others, *The Quarterly Journal of Economics*, February 1999, 114: 83-116
	Ex-Communist	Dummy denoting ex-communist countries	N/A
	Fraction-alisation	Index of ethno-linguistic fractionalisation for 1961 and 1985	Based on Taylor, C.L.; Hudson, M.C (1972) *World Handbook of Political and Social Indicators*, 2d ed. New Haven: Yale University Press. pp. 271-274; sourced from http://weber.ucsd.edu/~proeder/data.htm
Dependent variables			
Problem solving: trust and confidence	*Trust*	Generalised trust –WVS question: "Generally speaking, would you say that most people can be trusted, or that you cannot be too careful?"; share responding the former	World Values Surveys: see Inglehart, R. et al (2003)
	Confidence	Confidence in institutions of government – sum of share of responding "very" or "quite" confident in WVS following list of institutions: parliament, civil service, government, and political parties	World Values Surveys: see Inglehart, R. et al (2003)
Problem solving: conflict resolution	*Legal conflict*	Legal conflict – measures the number of lawyers in society by the proxy: ratio university graduates in law to total graduates	UNESCO Institute for Statistics (2005), unpublished dataset

Concept	Variable	Description	Source
	Sociopolitical conflict	Social and political conflict – variable SFTPUHVL from State Failure Taskforce III dataset measuring the sum of the maximum magnitude of "events" (i.e. conflicts that are potential causes of state failure) over previous 15 years	Goldstone, J.A., Gurr, T. R., Harff, B., Levy, M.A., Marshall, M.G., Bates, R.H., Epstein, D.L., Kahl, C.H., Surko, P.T., Ulfelder, J.C., and Unger, A.N. In consultation with Christenson, M., Dabelko, G.D., Esty, D.C., and Parris, T.M (2000) *State Failure Task Force Report: Phase III Findings.* McLean, VA: Science Applications International Corporation.
	Political stability	Political stability – Governance Matters dataset measure combines several indicators which measure perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism	Kaufmann, D., Kraay, A. and Mastruzzi, M. Governance Matters VI: Governance Indicators for 1996-2006 (July 2007). World Bank Policy Research Working Paper No. 4280.
Microeconomic : participation	*Labour force participation*	Labour force participation rate (%) - measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work.	ILO, Key Indicators of the Labor Market (KILM), database 4th edition, access via: http://esds.mcc.ac.uk/wds_ilo/
	Informal economy	Shadow economy as % GDP (all data 2000)	Schneider, F. and Klingmair, R, (2004). "Shadow Economies around the World: What Do We Know?," IZA Discussion Papers 1043, Institute for the Study of Labor (IZA).
Microeconomic : innovation and entre-preneurialism	*Entrepreneur-ship*	Opportunity Entrepreneurship Index (GEM) – measures entrepreneurs who started a business to exploit a perceived opportunity; (versus entrepreneurs who started a business due to lack of other opportunities, as well as non-entrepreneurs); variables takes average of all results available for sample countries between 2001-2004.	GEM Consortium (2004), *Global Entrepreneurship Monitor*, access via: http://www.gemconsortium.org/
	SME share	SME share of employment in manufacturing sector	Demirguc-Kunt, A., Beck, T., Ayyagari, M. (2003). "Small and medium enterprises across the globe : a new database," Policy Research Working Paper Series 3127, The World Bank.
	Innovation	Annual patents awarded per US$1b GDP (average 2000-2004)	United Nations (2005), UN Common Database, version released 17 November 2005, ESDS International (MIMAS), University of Manchester, access via: http://esds.mcc.ac.uk/wds_un/

Concept	Variable	Description	Source
Social policy	*Public goods*	Provision of public goods - proxied by government spending on health and education as share of GDP	World Bank (2005), World Development Indicators, September 2005 edition released 21 October 2005, ESDS International (MIMAS), University of Manchester, access via: http://esds.mcc.ac.uk/wds_un/
	Redistribution	Redistribution- social security expenditures as % GDP	ILO (2002). ILO World Labor Report 2000: income security and social protection in a changing world. Geneva: ILO.
	Tertiary enrolment	Gross enrolment rate in tertiary education per 1,000 population	United Nations (2005), UN Common Database, version released 17 November 2005, ESDS International (MIMAS), University of Manchester, access via: http://esds.mcc.ac.uk/wds_un/
Economic outcomes	*Growth*	Average annual growth in GDP/capita, 1990-2004	World Bank (2005) as above
	Volatility	Standard deviation of average annual growth of GDP per capita, 1990-2004	World Bank (2005) as above

APPENDIX 2: COUNTRIES COVERED IN THE SAMPLE

Albania	Lithuania
Algeria	Luxembourg
Argentina	Macedonia
Australia	Malta
Austria	Mexico
Bangladesh	Moldova
Belarus	Morocco
Belgium	Netherlands
Brazil	New Zealand
Bulgaria	Norway
Canada	Peru
Chile	Philippines
China	Poland
Colombia	Portugal
Croatia	Romania
Czech Republic	Russia
Denmark	Slovakia
Dominican Republic	Slovenia
Estonia	Spain
Finland	South Africa
France	Sweden
Germany	Switzerland
Greece	Tanzania
Hungary	Turkey
Iceland	UK
India	Ukraine
Ireland	Uganda
Italy	Uruguay
Japan	USA
Korea	Venezuela
Kyrgyzstan	Vietnam
Latvia	Zimbabwe

APPENDIX 3: CORRELATION MATRIX

		bonding	bridging	rules	tech frontier	exComm-unist	fraction-alization	gdp_ppp
bonding	Pearson Correlation	1	.562(**)	.193(*)	-.250(**)	-.448(**)	.218(*)	.294(**)
	Sig. (2-tailed)		.000	.047	.008	.000	.014	.001
	N	128	128	107	112	128	128	128
bridging	Pearson Correlation	.562(**)	1	.122	-.149	-.285(**)	.128	.226(*)
	Sig. (2-tailed)	.000		.210	.118	.001	.151	.010
	N	128	128	107	112	128	128	128
rules	Pearson Correlation	.193(*)	.122	1	.673(**)	-.122	-.254(**)	.852(**)
	Sig. (2-tailed)	.047	.210		.000	.212	.008	.000
	N	107	107	107	101	107	107	107
Technology	Pearson Correlation	-.250(**)	-.149	.673(**)	1	.513(**)	-.308(**)	.410(**)
Frontier	Sig. (2-tailed)	.008	.118	.000		.000	.001	.000
	N	112	112	101	112	112	112	112
Ex-	Pearson Correlation	-.448(**)	-.285(**)	-.122	.513(**)	1	-.070	-.321(**)
Communist	Sig. (2-tailed)	.000	.001	.212	.000		.430	.000
	N	128	128	107	112	128	128	128
Fractional-	Pearson Correlation	.218(*)	.128	-.254(**)	-.308(**)	-.070	1	-.266(**)
ization	Sig. (2-tailed)	.014	.151	.008	.001	.430		.002
	N	128	128	107	112	128	128	128
gdp_ppp	Pearson Correlation	.294(**)	.226(*)	.852(**)	.410(**)	-.321(**)	-.266(**)	1
	Sig. (2-tailed)	.001	.010	.000	.000	.000	.002	
	N	128	128	107	112	128	128	128

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).