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LIBERALISATION AND REGIONAL DEVELOPMENT

Paul Cook and David Hulme

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International Development Centre

Faculty of Economic and Social Studies
University of Manchester
Manchester U.K.

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INTRODUCTION

The last decade has witnessed a growing emphasis on policies of economic liberalisation in developed and developing countries. These policies have taken a variety of forms, but their central focus is a more market-oriented approach and a reduction of state intervention in national economies. This 'new wave' of economic thinking has come at a time when there is an increasing atmosphere of disillusionment surrounding orthodox approaches to regional policy. There is mounting evidence that traditional regional development strategies - the creation of growth centres, financial incentives for industrial relocation, public sector investment in infrastructure, river basin and area development plans, and the establishment of public enterprises in 'lagging' regions - have performed poorly. From a liberalisation point of view the failure of orthodox regional policies to stimulate economic growth and regional development, through adopting policies which have distorted market forces and expanded the role of the state, is only to be expected. Indeed from a 'pure' liberalisation standpoint the desirability of any form of state intervention in the dynamics of regional economies might be questioned. In practice, however, it has not proved possible for national governments to abandon their involvement in regional development and a new approach to regional policy is evolving in mixed market economies, partly in response to the new thrust of macroeconomic policies with a market -orientation. The key features of this approach, which may be termed local economic development, are an emphasis on the role of indigenous business ventures; the fostering of local entrepreneurial ability; and, a belief in the market as the sole instrument capable of promoting social welfare from commercial activity.

In this paper we examine the main tenets of liberalisation policies and the local economic development approach and examine the relative compatability of these macroeconomic policies and local initiatives. We conclude that, although there are some conflicts between the two sets of policies, local economic development is a regional development strategy that is broadly compatible with market-oriented macroeconomic policy. To date most experimentation with the local economic development approach has occurred in developed nations. We explore the potential role of a local economic development approach in the regional policy of the many developing countries presently adopting liberalisation policies. Our preliminary work is rather assertive, documenting the recent changes taking place in both fields and pointing out the potential compatability in the two approaches. Initial findings suggest that serious efforts to evaluate the effects of these approaches either separately or jointly nature is lacking and warrants further empirical research.

ECONOMIC LIBERALISATION

Interest in economic liberalisation, although having regional implications, has accelerated largely in response to macroeconomic disequilibrium, most notably inflation and balance of payments problems in the late 1970s and early 1980s (Crockett 1981, Killick 1985, Krueger 1978). The current attitude towards market-orientation has been partly in response to the election to power of conservative governments in the US, UK and parts of Europe, and to the perceived failures of state control and intervention in the 1960s and early 1970s (Heald 1985, Killick 1986, Shirley 1983).

In less developed countries (LDCs) economic liberalisation is strongly pursued by multilateral and bilateral agencies, in the hope of improving resource allocation, as part of policy conditions for various lending and aid programmes. The measures particularly concern IMF lending for stabilisation and World Bank structural adjustment loans. Following a policy statement[1] in 1985 by George Schultz, however, it is expected that the United States Agency for International Development (USAID) will encourage LDCs to follow free market principles through a process of policy dialogue (Killick 1986).

The economic reforms advocated as part of this conditionality fall into three categories. First, those that remove market distortions in product, labour and capital markets. Included in these are policy changes directed towards credit allocation, exchange rates, tariffs and wage policies. Advocates of reform principally make the assumption that distortions have been government induced and in so doing treat non-government induced distortions (externalities) as unimportant (Cook 1986).

Secondly, policies seeking to change the public and private mix. These include forms of privatisation and reductions in government expenditure and its sphere of influence. Important are divestiture of state-run monopolies; deregulation to permit greater competition; contracting-out and various schemes to hive off state run activities into self-managing enterprises. Countries undertaking these reforms have done so because of ideological or political turnabouts with a smaller role for the public sector as one of the consequences. Also included are the so-called 'one-step back' countries where the desirability of retrenching part of the public sector has been the main consideration (Berg 1982, Paul 1985).

Finally there are measures that contribute to market development. These include schemes to improve the efficiency and functioning of the market mechanism. The most frequently adopted measures compatible with a more market-oriented approach include creating a legislative-constitutional environment conducive to private enterprise; efforts to improve basic infrastructure and communications which will facilitate information and exchange by reducing transaction costs and attempts to circumvent networks of dysfunctional bureaucratic controls, such as export processing zones.

Each of these macroeconomic policy thrusts has implications for the development of regional policy. Strongly interventionist regional planners might argue on the basis of international trade theory that an extreme market-oriented approach will accentuate regional imbalance while market purists, at the other end of the spectrum, stress the importance of the market approach in equalising marginal productivities to bring about regional balance (Armstrong and Taylor 1978). Our position falls between these two extremes recognising that both rely on tenuous assumptions. We attempt to show the potential compatibility between some of the policy and practice of the new thinking on macroeconomics and the idea that local development could form the basis of a regional development strategy.

REGIONAL POLICY, THE 'BOTTOM UP' PARADIGM AND LOCAL ECONOMIC DEVELOPMENT

The degree of acceptance that liberalised macroeconomic policies have achieved in recent years contrasts markedly with attitudes towards orthodox regional policies. A substantial literature critical of the 'development from above' paradigm that has characterised conventional regional theory has been produced, much of it by individuals who were formerly proponents of the approach (Friedmann and Douglass 1978, Friedmann and Weaver 1979, Gilbert and Goodman 1976, Lo and Salih 1976, Stohr and Taylor 1981a, Weaver 1981). The assumptions on which this paradigm is based, 'that development is driven by external demand and innovation impulses and that from a few dynamic sectoral or geographical clusters development would "trickle down" to the rest of the system' (Stohr and Taylor 1981b) have been fiercely attacked. The paradigm's main practical manifestation, the growth pole or growth centre, is commonly judged to have been ineffective in achieving the objectives of regional policy - the lessening of inter-regional and rural-urban disparities and the reduction of the growth rate of national metropoli. The paradigm concentrated attention on the allocation of public resources, rather than the stimulation of viable economic activity.

Attention has now focussed on alternative notions of locally based development under a variety of different titles - local development (Coffey and Polese 1984), local economic development.(Stewart 1983), agropolitan development (Friedmann and Douglass 1978), community based development (Kent 1981) and territorial development. Stohr and Taylor (1981b) write of the new paradigm of 'development from below' characterised by policies of intra-territorial integration enhanced internal self-reliance and selective spatial closure. The academic literature on this paradigm is at a nascent stage but there is already a notable difference between the proposals made in relation to developing and developed nations. The theoretical debate surrounding developing countries (Friedmann and Weaver 1979, Friedmann 1981, Stohr and Todtling 1978) views fundamental political change as necessary and requires that planning occurs within a socialist context. The state, it is argued, must play a major role by defining units of spatial organisation, by creating a legal and administrative framework for selective spatial closure, by communalizing productive wealth, by ensuring equal access to the use of social power and by running a parallel economy producing higher order goods. In consequence radical, if not revolutionary change, would be an essential precondition to the implementation of such an approach in most third world nations. Stohr (1981) recognizes the problem of feasibility, at least in the short and medium term, but Friedmann and Weaver (1979) side-step this problem by making reference to purported examples of agropolitan development. An example of this is the spurious claim that 'Papua New Guinea has officially adopted a version of agropolitan development as a basis for its national plan' (ibid, 194).

By contrast, in industrially advanced nations the concept of local development has evolved within the context of a mixed market economy. It is this interpretation of the 'new paradigm' that we see as being of greatest utility to those involved in contemporary regional policy in developing countries. Coffey and Polese (1984) propose that:-

'the concept of local development... defines a particular form of regional development in which "local" factors - the local spirit of entrepreneurship, local firms or local financial institutions - constitute the principle bases for regional economic growth... by local factors we clearly do not mean the geographic or physical attributes of a region... but, rather, the socio-cultural and behavioural attributes of the local population related to the development process'.

These are the main features of the concept that is elaborated in the following paragraphs. The term 'local economic development' is used as the concept focuses more on economic growth than the broader and more transcendental objectives of human dignity and fulfilment common to most contemporary definitions of 'development'.[2] The notion of local economic development is far from novel and elements of this approach can be identified in regional policy in Britain, particularly during the inter-war years (Camina 1974). The concept of community development and the encouragement of co-operatives in developing countries in the 1950s and 1960s have a number of similarities with this approach. The key element of a local economic development approach, however, is the emphasis on endogenous economic growth through a social learning process, rather than the induction of growth or the provision of social welfare according to an externally prepared blueprint.

The Conceptual Basis of Local Economic Development

The conceptual basis of a local economic development approach has only been sketched (Coffey and Polese 1985). There are three main strands to its theoretical justification. The central tenet of the approach is that the economic vitality of a locality is determined in a large part by the entrepreneurial ability, knowledge and managment skills of its population. Support for this thesis may be drawn from the earlier works of Kuznets (1965) and from Denison's (1974) work on the 'residual factor' that is required to explain the growth of the US economy. In consequence a local development approach emphasizes investment in developing the commercial skills and abilities of the local population and changing attitudes, rather than investment in physical capital.

Building on the argument that human capital is a key determinant of economic vitality, the approach views inter-regional migration in qualititative as well as quantitative terms. Migration is not merely a mechanism by which supply and demand for labour are matched but is also a means for the redistribution of human capital. Typically, in an area which is 'lagging' out-migration has weakened the human resource base. This is confirmed by empirical studies which find that out-migrants from a given locality are generally youthful and have higher than average levels of education and initative (White and Woods 1980). In consequence a local economic development approach emphasizes the retention of people in a region.

The third tenet underpinning the local development approach is that enterprises originating from within a specific locality have a greater propensity to develop inter-firm and intra-firm linkages, in the form of sub-contracts and flows of goods and services, within the locality. Empirical studies of the purchasing behaviour of multi-branch firms support this statement (Hamilton 1974, Polese 1982, Watts 1974). Hence, the local development approach prioritizes the emergence and expansion of endogenous business[3], rather than the attraction of enterprise from other regions. This can be related back to the first premise and focuses attention on the process of stimulating local entrepreneurship. It is in contrast to some of the ill-conceived attempts to foster private sector development through the use of export processing zones. Apart from the use of local labour, many of these have made little contribution to the total economy being characterised by few domestic linkages, high foreign ownership and low domestic value added.

To summarize, then, the local development approach emphasizes the role of endogenous entrepreneurs, views the indigenous population as the fundamental resource determining rates of economic growth and stresses the need for local control of economic activity. It does not reject investment in physical infrastructure or capital subsidies but accords them a low priority.

Strategies for Local Economic Development

A wide range of measures by which local authorities might stimulate local economic development are available but clearly the package of measures selected will depend on the specific needs and situation of a locality. Six main strategic options for the implementation of a local economic development approach can be identified. Each of these options seeks to surmount a perceived 'obstacle' to the economic vitality of the local area.

The first of these perceived obstacles to locally-based economic growth is the lack of access to venture capital on the part of local entrepreneurs and new, small-scale businessmen (Coffey and Polese 1985). Existing capital markets are seen as failing to service these individuals and groups because of their lack of collateral, the high risk nature of the proposed enterprises and because the lending institutions focus lending activities on an established clientele. This can be overcome by a combination of market-oriented policies and local authority initiatives aimed at modifying the behaviour of existing institutions and fostering the establishment of new lending agencies. As these policies do not have an immediate effect, preferential loans schemes and the provision of grants for feasibility studies and start ups may be warranted during the adjustment period. The key features of this financial assistance, whatever form it takes, are that it should be channeled only towards activities with a high likelihood of economic viability and that it should concentrate on small scale enterprises, rather than the large scale ventures typical of orthodox regional policy. In the UK and the Republic of Ireland, for example, those involved in local financing emphasize the need for a 'hard headed' approach to investment appraisal (especially with regard to craft ventures) and stress the crucial importance of new product development allied with detailed market research. The market is to be the sole judge of a venture and it is accepted that businesses which prove to be unviable are to be allowed to collapse, it not being in the interests of local development for investment funds to be diverted into 'keeping lame ducks afloat'.

A second strategy to facilitate local development is improving the access of local business men and would-be entrepreneurs to information. This is a complex and ill-defined task, however, as the range of information that might be required is almost infinite. Commonly local authorities concentrate on the establishment of a small business advisory centre that can provide a register of commercial properties and sites, details of sources of finance and grants, basic legal advice and assistance with market research and product development. In addition, it may run training courses and provide scholarships. A major focus in recent years has been the attempt to create what has been termed a 'one-stop-shop'; that is an advisory agency that can handle all the enquiries raised by a would-be entrepreneur and relieves him or her from having to develop contacts in a multiplicity of agencies. By reducing the time and effort that a small businessman needs to invest in developing and implementing a proposal it is believed that such agencies can facilitate a greater number of business start ups.

The third, and the most ambitious and ambiguous strategy for local development, are social animation initiatives. These attempt to tackle the perceived scarcity of the main source of economic growth - entrepreneurial spirit and ability. Social animation strategies seek to stimulate community awareness and promote attitudes and structures conducive to entrepreneurship through the activities of field agents - business development officers, community enterprise officers, co operative officers. The work of these agents may be targetted on creating a social process that either encourages individuals to 'take the leap' into business or that leads to the formation of group and cooperative enterprises. Whilst some of the ideas underpinning the work of animateurs have their roots in the community development movement (Cary 1970) the particular emphasis of the local development approach requires that field agents have a commercial orientation and skills, rather than a social or welfare background. Examples of the success of this strategy can be cited (Cearbhaill and Cinneide 1986) but its conceptual grounding is far from clear. Despite the enormous literature on entrepreneurship that has grown since the work of Schumpeter (1934) in the early part of this century the understanding of the processes by which entrepreneurs emerge remains rudimentary. The fundamental question - 'are entrepreneurs born or made' - seems no nearer an answer. The adoption of a social animation strategy, however, assumes that in the short term latent entrepreneurs, whether individuals or groups, can be found in a local population and that in the long term a socio-cultural environment favouring the evolution and emergence of entrepreneurs can be created. The theorist may have reservations about these assumptions but the practitioner of local economic development argues that only 'real world' experimentation can provide answers.

A fourth strategy for local development concerns efforts by local authorities to ameliorate weak local demand by introducing policies encouraging the use of locally produced goods and services (Mawson 1986). This has taken two main forms. First, a review of the purchasing pattern of the local authority itself and a revision of the pattern to use local suppliers where this is possible. Secondly, the organisation of local trade fairs encouraging endogenous businessmen to make the acquaintance of local suppliers who could, perhaps after negotiation, supply them with the goods and services which are currently purchased outside of the local economy.

Finally brief mention must be made of two further strategies which the 'purist' of the local economic development approach might refute, but which are commonly adopted by local development agencies. These are the provision of business accommodation in theform of small factory units and offices in special 'start up' or 'incubator' units, and the external promotion of the locality. The latter activity attempts to encourage business in-migration and tourism and also to act as an advocate for the locality in winning grants and assistance from regional, national and international agencies.[4]

LIBERALISATION AND LOCAL ECONOMIC DEVELOPMENT

Clearly the notion of economic liberalisation is incompatible with orthodox regional policy and with 'development from below' proposals that require massive bureaucratic intervention at the national and local levels. In this section we examine a local development approach to regional policy in a liberalisation framework and outline a number of questions that form an agenda for research on the interactions of the two sets of policy.

At the beginning of this paper three major thrusts of market-oriented economic policy were identified - removing market distortions, changing the public-private mix and market development. How effectively would a local economic development approach complement these three types of reforms?

Removing market distortions

In many respects removing market distortions in both product and factor markets is compatible with stimulating local economic development which accepts the market as the pricing mechanism, evaluates the performance of enterprises through their involvement in the market and focuses on the development of small units operating, in the main, individually.

In product markets, reforming overvalued exchange rates and removing exchange controls will encourage production for export. Reducing tariffs on imports will also stimulate domestic production in product lines that are easily have a high import content. In general, removing product price distortions that were designed to foster import substitution, will lead to a switch towards a higher proportion of tradable goods in the economy as a whole (Balassa 1975). This will benefit local initiatives since these commodities are more likely to have close links with small scale, labour intensive operations. Any potential conflict that may arise between the adoption of an economy wide market-oriented approach, that relies on individual decision-taking in production and consumption and a local development strategy which insists that local purchasing requirements are mandatory, may be overcome by carefully defining the boundaries. Further, as outlined in the next section, local linkages are expected to substantially increase as a result of liberalisation.

Reform of the capital market will improve the allocation of credit and provide greater opportunities for small enterprises. In the past credit ceilings and government administered allocation of credit have inevitably meant large scale and preferred customers preempt opportunities for small entrepreneurs. As a result these resorted to borrowing in 'curb' or informal money markets where interest rates were excessive (Killick 1986). Moving to more market determined interest rates in financially repressed economies will not only lead to a spread of financial services in the economy, giving greater access to a wider population but will allocate credit on fairer terms (McKinnon 1973,Shaw 1973). With reform enterprises of all sizes,requiring financial support for both investment and working capital, will compete in formal sector money markets on equal terms. Small enterprises will benefit because access to the formal sector will rise relatively and the cost of borrowing will not be as prohibitive as those in the informal sector (Roe 1982). Even within this strategy, however, there remains a case for intervention in the allocation of credit, particularly towards assisting small and local firms in new product development.

Further, the relative price of capital and labour will be changed by raising the cost of investment and, through exchange rate reform increasing the price of imported capital equipment. This will make the adoption of labour intensive techniques of production more attractive. On a broader level, removing market distortions will increase overall GDP and economy wide rate of profit, which will result in more savings and more long term growth in the demand for labour.

Removing labour market imperfections by reducing the relative size of those on the government payroll and by reforming minimum wage legislation, employers will be free to hire labour at the market determined wage. Evidence from wage studies in the informal sector suggests that this lies somewhere between the wage established in the informal sector and the previously distorted institutional level of the formal sector (Squire 1979). Thus by lowering fixed costs per unit of production overall labour demand will be expanded.

Several qualifications exist in relation to these liberalisation measures. There can be no denying that many of these reforms will benefit large scale enterprises and, therefore, sufficient monopoly controls will have to be installed. It is also evident that removing policy induced distortions in one type of market without attending to other markets will reduce the beneficial outcome of the overall reform. There is strong evidence that interdependence exists between different forms of market distortion. For example, the excessive movement of labour to urban areas resulting from the suppressed demand for labour in the agricultural sector is as much due to capital market imperfections, skewed land distribution and distorted pricing policies for agricultural goods, as to labour market imperfections alone (ibid).

Changing the Public/Private Mix

A commitment to reduce the size of the state sector, either by cutting public expenditure or transferring state activities to the private sector, has profound implications for regional development. The greater emphasis on the private sector implies a redirection of state activities away from the management and control of large public enterprises and from planning by directing state investment to creating a climate and appraising investment opportunities that are conducive to private sector initiative. Such a policy thrust is based on the same economic philosophy as that which underlies local economic development. Indeed, policies seeking to change the public/private mix and stimulate local economic development are mutually reinforcing. The dismantling of state monopolies, in conjunction with a competition policy, provides opportunities for localised development, whilst the local economic development approach provides a model for the expansion of the private sector and a means by which public funds, and particularly foreign aid, can be channeled into stimulating small scale private enterprise. The administrative implications of a local economic development approach are supportive of policies favouring the 'rolling back of the state' as the approach requires the establishment of a cadre of staff who are business-minded, rather than bureaucratically-oriented, and who have commercial skills. This cadre could spearhead moves to reorientate public institutions and modify the attitudes of public servants. Enormous problems face such attempts at administrative reform, but local economic development provides a crucial first step in this direction.

There are further ways in which these policies can be mutually reinforcing. Some of the previously state run activities, forcibly induced by government policy, will inevitably give way to activities with a clearer comparative advantage both at the national level and more crucially at the inter-regional level. For example, away from iron and steel production based on imported materials and technology, towards production more fully utilising local materials and resources and providing opportunities for local entrepreneurs.

At the broader macro level reducing the size of public sector expenditure will help alleviate inflationary tendencies. Encouraging domestic resource oriented development will place less strain on the balance of payments situation because of import savings and increased export earnings. The ultimate effect of these, reducing inflationary expectations and uncertainties over external payments, provides a more amenable environment for business decision-making and for small scale commercial initiatives.

Market Development

Policies in this direction seek to improve the efficiency and functioning of the market mechanism. Two main types of measure have been adopted for this purpose, both designed to facilitate the flow of market information (Cook 1986). The first of these are organisational measures, such as advisory agencies assisting entrepreneurs with marketing and production information. The USAID supported Business Development Centre in Sri Lanka provides a concrete example of this type of activity. Such an approach overlaps directly with the local economic development approach and clearly the estabishment of information centres is a strategy that both macro and micro policies can pursue in conjunction.

Secondly, governments in many LDCs have provided funding for infrastructure; through their capital budgets, which facilitates private sector development. Traditionally this has not been large when compared to both non-productive investment and state sector infrastructure. Increasing this share, by providing roads and improved communication for parts of the economy that have been subsistence-oriented rather than market-oriented, can further stimulate local economic development.

The strength of the case arguing for the use of a local economic development approach in countries pursuing policies of liberalisation can be further bolstered by a consideration of political factors (Nelson 1984). Clearly, the political atractiveness of linking these two sets of policy will vary according to the specific social and political situation in a country but local economic development could be an effective means of enhancing the acceptability of liberalisation at the grass roots level. Policy-makers can make little popular political capital out of the objectives of 'removing market distortions', 'reducing public expenditure' and 'developing the market', but the objectives of 'helping new small scale businessmen', 'providing business advice and funds to local people', 'forming business groups' and 'promoting this region' have an immediate and widespread appeal. Local economic development provides a means for spreading the values and attitudes that underpin liberalisation - rewarding entrepreneurship, encouraging risk-taking and a belief in the market economy, fostering positive attitudes to business, and, replacing public-private competition by partnership - at the micro-level. It provides a supply side response to regional political pressures which is far more feasible than the liberalisation 'purists' strategy of non-intervention.

At the bureaucratic level a local economic development approach could be expected to meet some opposition, but such opposition has been an understandable feature of public service attitudes to liberalisation in general. Local economic development provides market-oriented policy-makers with a model of the 'new type' of public servant,[5] that is to be encouraged. It permits an emphasis on bureaucratic reorientation and retraining, rather than retrenchment. The business community in general might be expected to support such a business-minded approach, but clearly this would vary from enterprise to enterprise depending on perceptions of the dangers of increased competition. Finally, though of considerable importance in many countries, the alliance of macroeconomic liberalisation policies with local economic development would meet with the approval of the major donors of foreign aid[6] (Stewart 1985).Indeed, the creation the organisational infrastructure for local economic development - the training of staff, building of small scale business units, creation of data banks and the establishment of small business funds - has many of the attributes that aid agencies presently support.

The purpose in pointing out the compatibility between these macro and micro policies and briefly showing that there are reasonable grounds to believe that such a 'package' would be politically feasible in many countries is not to advocate that such a package should be uncritically adopted. Rather, we have sought to demonstrate that governments pursuing market-oriented policies should evaluate the suitability of a local economic development approach to regional policy.

Present knowledge of the potential role and impacts of local economic development in LDCs is rudimentary and the topic merits further analysis and empirical research. A number of issues require clarification and form a possible agenda for future research:

- In what circumstances are different types of organizational unit (viz. the individual entrepreneur, the firm, the cooperative, the community enterprise) most appropriate?

- Which factors influence the effectiveness of different local economic development strategies, and is there an optimal strategy sequence?

- What can be learned from earlier locally-based programmes (community development, cooperatives, animation rurale)[7] to improve the performance of the local economic development approach?

- What are the likely consequences of adopting local economic development as a nationwide programme, rather than a 'lagging areas' programme?

- What are the social impacts of a local economic development approach? Is social targetting of the approach desirable or feasible?

- Should macroeconomic policy more explicitly account for its regional implications?

CONCLUSION

Orthodox regional development strategies have performed poorly in developing countries and are inappropriate given the climate of economic liberalisation that is influencing policy-makers in many third world nations. In recent years claims have been made for the adoption of a new regional planning paradigm, 'development from below', but these territorially-based regional policies, which we term the local economic development approach, are evolving in a mixed economy context. In this paper we have outlined the concepts that underpin macroeconomic policies of liberalisation and micro economic policies of local economic development and examined the degree of compatability of these two sets of policies. We conclude that local economic development provides the basis for a regional policy that complements a market-oriented macroeconomic philosophy, although it is recognised that there are some areas of conflict.

However, very little theoretical or empirical research has been conducted on the interaction of the policies discussed in this paper and on the role that a local economic development approach might play in the regional policy of developing countries. These important but neglected issues merit more attention. We have identified a number of key questions that form the basis of an agenda for future research.

NOTES

1. Schultz's statement is of particular importance as it provides a clear indication of US policy and identifies economic liberalisation as a policy objective in its own right.

2. There is a vast literature on the 'meaning of development'. A discussion of this topic is beyond the scope of the present paper. As a starting point the reader is referred to an oft quoted article by the late Dudley Seers (1977).

3. The capital used to finance endogenous business ventures may originate from within the locality or externally. The crucial feature, from a local development perspective, is that the enterprise that the capital finances is controlled by a local entrepreneur or business group. For a discussion of this issue see Coffey and Polese (1984).

4. Such activities are particularly important in European nations where local authorities commonly attempt to stimulate local business initiatives by 'packaging' local funds with grants and loans from central government, the European Social Fund, the European Regional Fund and other sources.

5. It is likely that, at least in the short term, the public services of most countries would encounter difficulties in acquiring the manpower to promote local economic development. Young (1986) has examined this issue in the UK, where the problem has been partially overcome by the recruitment of private sector personnel. The feasibility of this in LDCs would depend on the supply of suitable manpower and the comparability of public sector and private sector pay structures.

6. An example of this situation can be found in Guinea which is currently pursuing market-oriented macroeconomic policies and adopting a 'microrealization' programme of locally designed, commercially-oriented micro-projects. The IMF and World Bank have been influential in these reforms. (Pers. comm., Dr J Mullen).

7. The adverse effects of central government control on the performance of community development and co-operative programmes in developing countries is well documented (Holdcroft 1982, Hyden 1983). Esman and Uphoff (1984) have provided evidence suggesting that when local developments are operated through conventional, hierarchical, bureaucratic structures, initiative is generally stifled rather than stimulated. A local economic development aproach is only likely to function effectively when it is locally controlled as part of a social learning process, rather than as part of a nationwide bureaucratically conceived blueprint (Ruttan 1984).

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