

## BOOK REVIEWS

**The Rise of the Entrepreneurial State** by *Peter K. Eisinger*  
(University of Wisconsin Press, Madison, WI, 1989), pp. ix + 378, \$US 17.50,  
ISBN 0-2990-11874-6 (pbk.).

Management of the economy so that jobs are created or retained and growth is generated to fund the great array of public services seen as essential to a civilised world has become a major element in ensuring the legitimacy — and hence re-election chances — of governments everywhere in the western world over the last four decades. Ensuring that the benefits of world economic activity reach particular countries and that national economic activity benefits particular regions within those countries and particular localities within those regions has thus often achieved a place high on the agenda of governments at every level. The recognition that changing international competitive circumstances and trade patterns tend to privilege some areas at the expense of others so that some seem to be the losers in the overall economic game encouraged national governments in many countries in the 1960s and 1970s to develop regional development strategies, attempting to persuade footloose businesses not to go offshore or, if remaining in a country, to persuade them to relocate to or remain in areas of high urban population which would otherwise lose their economic base. The multiplier effects, both positive if people are in jobs and negative if there are many unemployed requiring the support of high levels of social security payments, of job generation are great. As these became better known over the last few decades public efforts to 'even out' business activity geographically became even more salient for political survival than were the myriad other policy areas demanding attention, such as education or health.

In the 1960s regional policies often worked well in both the UK and continental Europe. By the 1970s, however, following the economic shocks generated by the two oil crises, spreading economic activity reasonably equally over the nation became more problematic. National governments found multinational companies seeking to reduce labour costs by moving to Third World countries and ceasing to respond to national systems of regional development incentives. At the same time, economic recession meant few local jobs were being created by firms of every size but particularly by the large corporations with whom public authorities were accustomed to deal. Big business had not only begun to move offshore but also to cease to create jobs in its home areas. Worse, many such firms were laying employees off, creating as they did so sudden large pools of unemployment which threatened to become structural and long term. The situation was even worse in some parts of the USA, notably in the 'smoke stack' industries belt, as there had never been regional development policies in that country. Large companies thus failed to remain the development partners on whom national and sub-national governments had come to rely.

At the same time an ideological sea-change also began to take place, which encouraged even those national governments which had pursued interventionist policies to revise their positions and retreat from positive economic management. Small businesses came to be seen as the key to job generation, a belief supported by Birch's findings.<sup>1</sup> By the end of the 1970s, many local, state and regional authorities had become the 'last entrepreneurs'.<sup>2</sup>

Peter Eisinger's book traces the development in the USA of local authority (state) entrepreneurship policies in the 1970s and their change of focus as the 1970s and 1980s progressed. He traces an intellectual shift at local and regional levels which ran counter to the renewed *laissez faire* attitudes of the American national government. He documents the change in urban and regional economics from seeing government as a junior, passive partner, acting only on the supply side, to seeing it as the entrepreneurial state with a much more active interventionist, demand side, stance. As he says, in the USA at national level the chief emphasis has been on tariffs and on fiscal instruments for managing the economy but these have proved too blunt so at sub-national level an array of more targetted policies has grown up to fill the gap. States are now heavily involved in venture capital provision, in export incentives, in the encouragement of technological change. In particular, in their development strategies, they have moved away from emphasising labour-cost saving through the promotion of non-unionised labour and the abolition of minimum wages, the provision of subsidised customised training courses and cheap serviced land since such competition ultimately proved to be a zero-sum game, with each participating state being forced to bid down each cost while companies initially attracted by these and similar proposals often proved subsequently footloose and unstable. At the same time, American industry as a whole lost its position of dominance and state policy-makers' attention had to change to the generation of export orders and the nurturing of local, indigenous capital at the expense of focussing on attracting in mobile finance.

In summary, state economic management in the USA has come to depend increasingly on the development of strategic plans which seek to invest local (public or private) capital in local activities, seeking out investment opportunities that the private sector may have over-looked or be reluctant to pursue, including investment in new products, markets and industries. In many cases, these have further involved investment in R&D and encouraging the advances made possible by the new technologies emerging at the same time. Moreover, State governments are no longer seeking either jobs at any price (the costs of public service provision, environmental degradation etc., are now counted) or just any kind of jobs. Realising that many service sector jobs are low-paid, low-skilled and unstable, they are beginning to seek to encourage the more stable, skilled and multiplier-generating manufacturing jobs once thought not to have any particular merits. In other words, states in the USA in the 1980s finally came to realise what many academic analysts had been saying for some time — that the "location investment is a complex process in which intangible factors and historic accident figure prominently".<sup>3</sup> Access to markets rather than cheap labour has come to be of predominant concern.

States have thus turned to demand side activities, focussing on the three areas mentioned earlier — hi-tech, venture capital and export incentives. Eisinger runs through the list of supply-side activities tried and suggests that on the whole, they have proved negative in achieving their goal of local economic development. In contrast, analysing states' demands-side activities leads him to answer with a qualified 'yes' to the crucial question of whether or not they are effective. They do indeed, he suggests, generate extra investment in local areas, although, given the focus on hi-tech and risky ventures, it is less clear that they generate jobs. In some cases, moreover, they need to be complemented by some supply-side activities, notably perhaps the provision of education and training facilities, especially a research university.

Eisinger's book deserves to be widely read in Australia where the debate over interventionist industry policies at national level is rapidly hotting up but where the debate about appropriate economic development policies at state level has been put back perhaps decades by the failure of Victoria's winner-picking development policies and institutions, a failure coupled in some minds with the scandals surrounding West Australia Inc. and the lending fiascos of the State Banks of Victoria and South Australia. Eisinger is aware of potential criticism about the public sector's capacity to act entrepreneurially with success but is most timely in reminding us that tariff and fiscal policies are too blunt as instruments of economic growth generation while supply side policies have clearly failed. Properly managed, Eisinger concludes from a detailed survey of all available American evidence, development policies by states do indeed generate desired results. Immediate risk can be reduced by portfolio diversification and spreading risks over a large number of small investments while in the longer term the high returns from such risky investments cover other losses. Indeed, it could be argued that governments should face some capital losses with relative equanimity since, by encouraging hi-tech developments which the private sector is unwilling to finance, they may be able to generate manufacturing industries whose markets are so large that they are self-sustaining. Moreover, Eisinger reminds us that in any event the costs of public investment losses are considerably less than those of maintaining social security payments to the unemployed while also foregoing the tax the governments would have received on the incomes of recipients had they been in work. In a time of growing unemployment in Australia, when the Federal budget surplus threatens to become a deficit in the face of the cost of unemployment benefits, this too is a timely message for public policy-makers at all levels of government in Australia.

In short, Eisinger's book is an extremely informative, well-researched and wide-ranging analysis of sub-national development policies in the USA. Its American base does not detract from the very considerable interest of the book to Australians and it should be read by all who wish to see more farsighted, innovative and effective policies for the economic development of this country implemented over the coming difficult decade. The book does, however, have some major limitations which make it seem a little dated, even though published in 1988. Its chief limitation is that it does not deal with developments in managerial strategies, such as Just-In-Time production, or in physical technologies. As recent work by Kenney and his colleagues in the United States has indicated, the pattern of Japanese transplant companies in the USA owes little to the kind of development policies Eisinger discussed and a lot to the close relationships between core firms (in this case auto assemblers) and their suppliers generated through JIT strategies imported from Japan with the companies concerned and which will spread to other sectors. Moreover, Eisinger does not discuss the effects of the introduction of information technologies which will certainly affect the location strategies of companies and whose impact it would have been useful to explore. The information economy has long been thought to have the potential to affect radically regional development strategies and it is now time to begin that analysis.

#### REFERENCES

1. Robert Goudman, *The Last Entrepreneurs*, South End Press, Boston, 1979.
2. David Birch, *The Job Generation Process*, MIT Press, Cambridge, Mass., 1978.
3. Lynn Browne, 'Regional investment patterns', *New England Economic Review*, July/August, 1980, pp. 5-23.

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