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**Varieties of Neoliberalism? Restructuring in large industrially-dependent regions across Western and Eastern Europe**

Kean Birch  
CPPR  
University of Glasgow  
Ivy Lodge  
63 Gibson Street  
Glasgow  
G12 8LR

Vlad Mykhnenko  
CPPR  
University of Glasgow  
Ivy Lodge  
63 Gibson Street  
Glasgow  
G12 8LR

Corresponding author: [kean.birch@lbss.gla.ac.uk](mailto:kean.birch@lbss.gla.ac.uk)

## **ABSTRACT**

Since the early 1990s several commentators have argued that national economies have become increasingly integrated in a global economy that has flattened differences between different countries. The extension of free markets and neoliberalism can be seen also making the world flat. However, a number of scholars have argued that neoliberalism is more accurately considered to be a process and that deregulation, privatisation and trade liberalisation have therefore produced *varieties of neoliberalism* rather than a hegemonic form of capitalism. Our central objective in this article is to illustrate and analyse the variations in European regional economies that have undergone *neoliberalisation*.

**Keywords:** Varieties of neoliberalism, neoliberal adjustment, regional restructuring, regional performance.

## 1. INTRODUCTION

Since the early 1990s a number of commentators have put forward the view that the world is globalising as national economies become increasingly tied to one another through trade and investment links as well as a consequence of technological developments (e.g. Reich, 1991; Cairncross, 1997; Friedman, 2005). Globalisation has also occupied a number of eminent social scientists in their theorising on a changing world (e.g. Castells, 1996; Giddens, 1999). It is important to stress that such visions of the world are dependent upon the conceptualisation of a growing integration of activity across national borders drawing in a diverse array of polities, cultures and economies into one global whole. In this sense, globalisation is seen as a homogenisation process in which the world's diversity is slowly eroded to be replaced by a global polity, culture and economy (Vertova, 2006). Whether this is seen as a negative or positive process largely depends on the author's politics, but in either case it presumes that the 'economy', the focus of our arguments in this article, is a distinct and distinguishable set of relations from society rather than that the economy or, more accurately, economies are embedded in specific social systems (see Polanyi, 2001 [1944]).

Economic geographers, sociologists, political economists and others have questioned this characterisation of a singular and universal economy, especially the contention that the expansion of free markets and market competition will lead to economic convergence. The analysis and critique of *neoliberalism*, as the pursuit of free markets is known, has become an important field of study in this area, although one in which it is all too easy to fall prey to the globalising hyperbole of universal economic theories. Neoliberalism is now commonly used to describe the epochal shift in political

economy from welfare-based *government* to competitiveness-driven *governance* (e.g. Larner, 2000). More specifically neoliberalism is characterised by a number of principles including, but not limited to, the view that (i) markets are the only efficient means to allocate scarce resources; (ii) international free trade is desirable; (iii) state intervention is not desirable; and (iv) labour market flexibility is necessary (Hay, 2004a). There are many other features of neoliberalism highlighted by scholars, policy-makers and activists, both positively and negatively, but for the purposes of this article it is expedient to highlight these four issues. Of special interest here is the postulation of labour flexibility. This principle - built on the dual assumption that the market 'naturally' produces full employment and that labour enjoys perfect mobility (see Panic, 2006) - is crucial because it goes to the heart of the issues we are dealing with in our arguments.

The central objective of this article is to illustrate and analyse the variations in economies that have undergone *neoliberalisation*; that is, deregulation, privatisation and economic liberalisation. First, we aim empirically to test the claims of a number of scholars who have argued that there are *varieties of neoliberalism* rather than one version (Peck, 2001; Brenner and Theodore, 2002; Peck and Tickell, 2002; Larner, 2003; Tickell and Peck, 2003; Peck, 2004). In particular, we will test whether neoliberalism has produced variegated and hybrid regional economies in which universal economic tenets and practices are married to regional concerns thereby producing geographically specific political economies. Second, we aim to analyse the differences between these regionally specific forms to show how the world is not flat, but is instead made up of diverse *capitalisms* (e.g. varieties, national systems) that embed specific responses to new ideological and policy imperatives.

We are focusing explicitly on European countries in this paper because these countries can be contrasted with one another as distinct capitalist systems (e.g. Anglo-American, Rhinish, social democratic – see Hudson, 2003) and as having gone through a similar neoliberalising process. Furthermore, we are considering regions dependent upon industrial employment because they are most likely to have been detrimentally affected by neoliberalism as well as regional economies from two geopolitical regions – Western and Eastern Europe. We are interested in the neoliberal adjustment that these regions have faced and the particular forms of restructuring that they have experienced. Because of the approach we are taking, this article is largely descriptive in nature reporting on the differences between regions. More in-depth analysis would be necessary to flesh out the points we make here. The article consists of two main sections, the first of which deals with the theoretical debates on neoliberalism and the policy legitimisation used to justify neoliberalisation. We emphasise that neoliberalism produces variations across different regional economies because it is a process rather than condition. In the empirical section we draw on data from Cambridge Econometrics and Eurostat, first, to explore changes in industrial structure over the last 25 years; second, to consider the issue of regional upgrading and deskilling over the last 15 years; and, finally, to illustrate regional economic performance under neoliberalism. We then conclude with a discussion of the policy implications of our empirical findings.

## **2. NEOLIBERALISM ACROSS WESTERN AND EASTERN EUROPE**

### *2.1 Varieties of Neoliberalism*

Whilst the intellectual underpinnings of neoliberalism, based on neoclassical economic principles, has encouraged the extension of the logic of competitiveness across numerous countries and regions (Peck and Tickell, 2002), neoliberalism is also, according to Harvey (2005), a political project focused on the restoration of class power threatened by the redistribution of wealth and income following World War II. Despite having these intellectual and political dimensions, where the latter is legitimated by specific policy discourses as outlined below, neoliberalism entails an inherent contradiction between its universal principles and policy implementation. Even distinct neoliberal practices can be identified including deregulation in pursuit of market efficiencies; privatisation to enable market choice; and trade liberalisation to extend market competition (see Larner, 2003). These practices are contingent upon the specific context in which they are pursued in that they are neither applied in the same fashion across all places nor do they necessary impact on different places in the same way. What this means is that neoliberalism cannot be considered as a hegemonic system of capitalism, but rather that, as a process, it is more useful to think of it in terms of *variations of neoliberalism*.

A number of academics have emphasised the perspective that neoliberalism is more accurately considered as a process rather than a set of specific conditions; that is, *neoliberalisation* rather than neoliberalism (see Brenner and Theodore, 2002; Peck and Tickell, 2002; Tickell and Peck, 2003; Peck, 2004). The economic geographers Jamie Peck and Adam Tickell, furthermore, have argued that neoliberalism has proceeded through a series of discrete phases that help to explain its differential impacts and therefore variations across place and time. They highlight three phases of neoliberalism: 'proto-neoliberalism' associated with the pre-1980s attack on Keynesianism; 'roll-back

neoliberalism' of the 1980s and early 1990s focused on deregulation and structural adjustment; and 'roll-out neoliberalism' from the 1990s onwards concerned with state-building (Peck and Tickell, 2002; Tickell and Peck, 2003).

Of most relevance to this article are the latter two phases concerned as they are with regulation and restructuring in national economies. Roll-back neoliberalism can be seen as the globalisation of the neoliberalisation process as policy-makers in Western countries sought to naturalise economic conditions as external forces that necessitated internal structural adjustment (Peck and Tickell, 2002; Hall, 2003). The extension of neoliberal principles to developing countries through the 'Washington Consensus' centred on the World Bank and IMF promoted reform in developed countries as trade liberalisation encouraged national deregulation and privatisation in the pursuit of competitiveness. What this meant was that national economies could be recast as problematic in relation to the international economy and its newly emerging international division of labour (Hay, 2004a). Thus roll-out neoliberalism followed the rolling-back of state intervention in the economy producing national variants of neoliberalism as each country sought to position themselves in relation to global economic circumstances.

In this sense, neoliberalism is very much a state-led project representing the "*mobilization of state power in the contradictory extension and reproduction of market(-like) rule*" (Tickell and Peck, 2003, p.166). It entails an internal-external dynamic that has led to a shift in government emphasis from national welfare provision to international economic competitiveness (Larner, 2000), although the former has also been cast as dependent on the latter (i.e. welfare through economic growth). Because it is state-led and entails an internal-external dynamic, neoliberalism is country specific and therefore as

much reliant on national political economy as previous forms of economic regulation. Neoliberalism cannot be viewed as a form of capitalism *per se*, which means that national systems or varieties of capitalism (Hollingsworth and Boyer, 1997; Hall and Soskice, 2001; Amable, 2003; Peck and Theodore, 2007) have responded in different ways to the neoliberalisation process. Thus the pursuit of international competitiveness in one place is different from other places reinforcing and reproducing uneven development across different countries and, more importantly for this article, regions.

Despite having clear intellectual and political goals, neoliberalism as a project is underpinned by a central problematic assumption. Namely, its universal treatment of economic ideas means that it both presumes the existence of perfectly operating markets and assumes that such markets can be imposed, indiscriminately, across different countries. The fallacy underlying neoliberal prescriptions has been exposed by subsequent events, including various international financial crises, as well as by the inherent contradiction between neoliberal principles and the political legitimisation of neoliberal policies. Of particular interest to us here is the lack of concern with industrial structure in different countries and the assumption that labour markets are not contingent upon (supra)national institutional environments. We want to illustrate this last point by considering two specific forms of policy legitimisation used to justify neoliberalism, one focusing on Western Europe and the other on Eastern Europe. The first concerns the European Union's emphasis on the *knowledge economy* in recent policy, whilst the latter concerns the advice to *transition* countries in Central and Eastern Europe that they suffer from *over-industrialisation*.

## 2.2 *Neoliberal Policy Legitimation in Western Europe: The Knowledge Economy*

The reason we are considering the knowledge economy (and then over-industrialisation) is to show how neoliberalism has been legitimated by different policy discourses in different parts of Europe. In relation to the knowledge economy, considered here first, it is a concept that Godin (2006) suggests has more to do with politics than empirical evidence, at least in its current incarnation in European policy. Defined by the OECD (1996, p.9) as “economies which are directly based on the production, distribution and use of knowledge and information”, the knowledge economy thesis helps to legitimate support for certain economic sectors and the withdrawal of support for others. Consequently it legitimates policies in support of enhancing ‘knowledge diffusion’, ‘upgrading human capital’ and ‘promoting organisational change’ (ibid., p.19).

The link between the knowledge economy and neoliberalism has become increasingly evident in policy discourse where the former is seen as a driving force behind global competitiveness and therefore the need for neoliberal reforms (see Hall, 2003). In particular, the pursuit of high-tech employment and global market share has been a long-term policy goal in the European Community and Union (Rodriguez-Pose, 1998). Perhaps the clearest example of this policy emphasis is in the European Commission objective to make Europe the dominant world knowledge economy by 2010 (see EC, 2000). This was first proposed in the 2000 *Lisbon Agenda* and has since been reinforced by the 2004 *Sapir Report* (Kitson, 2005). The latter, for example, stresses that European countries need to reform their labour and social policies in order to remove barriers to market entry, encourage innovation and improve education, reiterating the earlier policy suggestions of the OECD.

Knowledge economy policy is here providing legitimation for neoliberal thinking in a number of ways. First, Watson (2001, p.509) argues that the ‘new economy’ is not compatible with the European social model because there is a need for flexible labour markets so that companies can “respond quickly to downturns in product demand”. The knowledge economy legitimates the erosion of the European social model by naturalising the need for flexible labour markets. Second, the pursuit of competitiveness through the expansion of high value-added sectors necessitates realigning education systems so that training and skills are oriented towards new knowledge sectors entailing continuous skills upgrading; the responsibility for which falls on the state and employees rather than employers (see Krieger, 2007). The state assumes the role of enabler or facilitator, providing the infrastructure for workers to continually adjust their skills to the demands of the knowledge economy, rather than the state stimulating demand. Finally, and perhaps most problematically, knowledge economy discourse naturalises both ‘innovation’ and ‘entrepreneurialism’ (e.g. DTI, 1998) thereby justifying the removal of ‘barriers’ to both and reinforcing the removal of labour ‘rigidities’ (Armstrong, 2001). In this sense, competitiveness in the knowledge economy is seen as the consequence of endogenous capacities – i.e. supply-side factors – whilst ignoring the importance of industrial structure and sectoral specialisation to national and regional economies (Bristow, 2005).

### *2.3 Neoliberal Policy Legitimation in Eastern Europe: Over-industrialisation*

Since the famous 1930s debate on planning and the market led by Hayek and von Mises, neoliberals have long stressed the ‘knowledge problem’ faced by central planners under

state socialism. János Kornai (1992) – a renowned dissident Hungarian economist – has built his entire scholarly critique of state socialism on the basis of the knowledge problem lying at the heart of state planning and bureaucratic control. Noting the vast mass of knowledge that needs to be accumulated, processed, and acted upon for bureaucratic coordination to work, Kornai has argued that such a task in theory was too huge and demanding for government planners and managers. Moreover, as Kornai's experience has shown, planning “can be solved somehow or other, but the practical solution is full of frictions, dysfunctional features, inefficiencies, and internal conflicts” (1992, p.130).

‘Over-industrialisation’ has become the main manifestation of dysfunctional totalitarianism. It is used to refer to centrally planned economies’ heavy emphasis on industry, the encouragement of the production of capital producer and military goods, with underdeveloped and ‘repressed’ trade, financial, business and consumer services. The neoliberal economic doctrine has contended that the root of this problem in ‘transitional’ economies (in much the same way as in more traditional developing ones) lies in the extensive state ownership of productive assets, pervasive state control over economic activity, and comprehensive government allocation of factors of production according to a centralised plan (Yarbrough and Yarbrough, 1997, chapter 21; cf. World Bank, 1995). It has also been alleged that the ‘Stalinist’ promotion of heavy industries was the direct result of the ‘knowledge problem’: coal-mining and steel-making had found favour with central planners as the end commodities measured in tonnes were simple to account and set targets for, unlike various intangible services.

The advent of market forces was meant to result in massive sectoral restructuring, the closure of subsidised industries and ‘ideologically-motivated’ production. Indeed,

given the reportedly high degree of the industrial distortion (Åslund 2002, pp. 125-126; De Melo *et al.*, 2001, p. 11), a large number of neo-liberal economists and Western policy advisors have claimed that some de-industrialisation or ‘reduced over-industrialisation’ would be unavoidable and even beneficial for the ‘over-industrialised’ state socialist economies. It has also been emphasised that the successful transition from plan to market should release the labour ‘hoarded’ by the industrial sector to the service sector (Mickiewicz and Zalewska, 2002, pp. 8-11).

#### *2.4 Neoliberal Adjustment and Regional Restructuring*

Taking the varieties of neoliberalism seriously necessitates a new look at regional restructuring in light of these policy discourses. In this article we focus on large industrially-dependent regions across Western and Eastern European because neoliberalisation is most likely to have had a deleterious impact on both employment and performance in these places as they respond to knowledge economy and over-industrialisation policy imperatives respectively. First, however, we need to consider how neoliberal adjustment produces regional variations in restructuring as a consequence of the implementation of neoliberal principles. In the context of regional restructuring it is useful to consider how previously existing path dependencies have been destroyed and new paths created. Path dependence in industrial regions has been characterised by a reliance upon large organisations that embed specific regional institutional arrangements (Hudson, 1988). For example, the existence of large firms means that local services do not develop because these activities are organised within the large firms themselves. In order to erode this arrangement, neoliberalism needs to produce a (ideological) crisis to

which neoliberal adjustment is then the natural solution (Hay, 2004b). The crisis in the case of Western Europe was full employment and the consequent rise in inflation (Tickell and Peck, 2003). For example, in the 1980s British monetary policy sought to control inflation and, in so doing, it contributed to the continued hollowing out of manufacturing following privatisation (Peck, 2001).

This 'path destruction' can be seen as the result of roll-back neoliberalism designed to support certain sectors and regions – those least exposed to international competition (e.g. market services) – and undercut sectoral and regional opponents to neoliberal adjustment (see Harvey, 2005). However, once path destruction starts it leads to another crisis, that of unemployment (Peck and Tickell, 2002).

This internal crisis leads to roll-out neoliberalism in which the ideal of market efficiency, already supplemented by the political desire to institute free markets during the roll-back phase, necessitates the eradication of supply-side rigidities (Hay, 2004a). For neoliberalisation to work, states need to ensure labour market flexibility through reducing the capacity of labour to resist these changes and find new forms of employment in new sectors. Consequently new (regional) institutional arrangements become embedded supporting 'emerging' knowledge economy or market service sectors in response to the perceived (and now institutionalised) external threat posed by international competition, especially in sectors where labour costs are lower overseas (e.g. manufacturing). This necessarily leads to a reorientation of policies towards supply-side concerns designed to enable re-training and skills upgrading alongside the expansion of low-wage employment to cut public spending on welfare (Peck and Tickell, 2002).

Despite the concern with upgrading to ensure international competitiveness, there is no necessary reason that such ‘creative destruction’ will lead to the creation of high value-added sectors since the context in which neoliberalisation occurs is not the same across different places. The intellectual principles underlying neoliberalism do not take a number of crucial factors into account that are central to the variations in neoliberalism. These include, but are not restricted to, the assumption that labour is perfectly mobile, that geography is not important and that socio-political conditions are external to markets (Panic, 2006). To illustrate this problem of neoliberal adjustment and the geographical variations it produces we have focused on regional restructuring in Western and Eastern Europe, especially on changes in industrial structure, employment upgrading and deskilling, and regional performance. We have taken 1980 in Western Europe and 1990 in Eastern Europe as the starting points for roll-back neoliberalism, followed by respectively 1995 and 2000 for the starting points for roll-out neoliberalism. Finally we have considered regional performance for each period of neoliberalism we have identified in Western and Eastern Europe.

### **3. METHODOLOGICAL NOTE**

#### *3.1 Identification of Regions*

This article’s main method is descriptive statistics. Given our primary focus on localised industrial restructuring in different parts of the continent and the general lack of a well-established regionalist typology covering both Western and Eastern Europe, the article adopts a methodically thorough and empirically-focused approach in identifying what can be described as large industrially-dependent regions (or LIDRs) in a wider European

context. It uses the European Union NUTS Level 2 regions as the smallest territorial entity for which the more detailed and reliable data on employment by various disaggregated industrial branches are available. A large industrially-dependent region is defined as an area with the three core attributes: i) a share of industrial employment in total employment above the respective national level at the beginning of restructuring; ii) a ratio between the industrial share and the market services share of total employment above the respective national level at the beginning of restructuring; iii) a total number of industrial jobs in the region above the West/East European average at the beginning of restructuring (of 208,000 and 236,000 respectively). This procedure has produced a list of 30 LIDRs in Western Europe and 10 in Eastern Europe. Appendix Table 1 details these regions in full.

### *3.2. Data Definition and Sources*

Our starting point of analysis is 1980 in the West and 1990 in the East, with the end point of 2005. Given the difference in the time-scale of regional restructuring, the process of industrial upgrading is analysed between 1995 and 2005 for Western Europe, and 2000-2005 for Eastern Europe. Industry is defined as the energy and manufacturing sector. The service sector covers market, non-public services. The process of regional restructuring is assessed as a change in absolute employment figures and regional gross domestic product in 2000 Euro prices. The data source for this part of the analysis is Cambridge Econometrics, *European Regional Data Spring 2007 Edition*. Regional upgrading is analysed through the change in high and medium high technology manufacturing employment and in low and medium low technology manufacturing sector. For services,

regional upgrading is analysed through the change in the knowledge-intensive high-technology services employment and in total less-knowledge-intensive services. The data source for this part of the analysis is Eurostat, *General and Regional Statistics, Regional Science and Technology Statistics: Human Resources in Science and Technology*.<sup>1</sup> The applied definition of high- and low-tech industries is that of Eurostat.<sup>2</sup>

#### **4. RESTRUCTURING ACROSS LARGE INDUSTRIALLY-DEPENDENT REGIONS IN WESTERN EUROPE**

##### *4.1 Structural Change*

Between 1980 and 2005 the industrial structure of Western European large industrially-dependent regions has changed considerably with a significant shift from industrial to market services employment in all the regions. The largest decline in industrial employment was in the West Midlands (67%), whilst the smallest increase in services employment was in Northumberland / Tyne and Wear (25%). The most noticeable trend from the data is that industrial employment has fallen across almost all of the LIDRs we have identified (see Figure 1). The only exception is Catalonia, although this region has only kept pace with the national Spanish change so it is not necessarily exceptional. In contrast, the change in market services employment ranges between small (Northumberland, 25%) and large (Noord Brabant, 112%) increases across the regions.

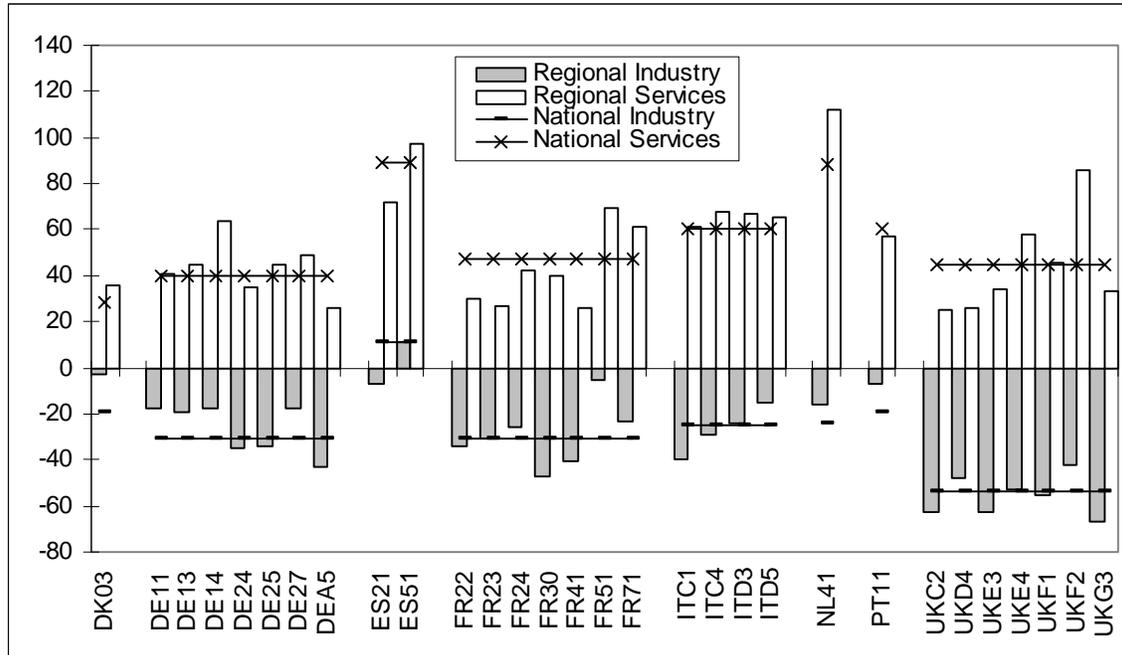
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<sup>1</sup>[http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=0,1136162,0\\_45572076&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136162,0_45572076&_dad=portal&_schema=PORTAL); last accessed 7 December 2007.

<sup>2</sup> [http://europa.eu.int/estatref/info/sdds/en/reg/reg\\_hrst\\_st\\_base.htm](http://europa.eu.int/estatref/info/sdds/en/reg/reg_hrst_st_base.htm); last accessed 7 December 2007.

The second most notable finding is that the UK regions have suffered from a significant decline in industrial employment in comparison to other regions. Almost all UK regions have lost half their industrial employment between 1980 and 2005 with some like South Yorkshire and the West Midlands losing over 60%. Several regions in other countries come close to the UK level including Arnsberg (-43%), Nord-Pa-de-Calais (-47%), Lorraine (-41%) and Piedmont (-40%), but all these regions represent relative outliers from their national averages. The changes in other regions in these countries are more diverse with industrial employment in several regions declining below 20% in a number of cases.

Figure 1. Western Europe: change in employment in energy and manufacturing (industry) and market services (services), total percentage by region and nation, 1980-2005



Source: Cambridge Econometrics, European Regional Data.

Note: German national average is based on West Germany only.

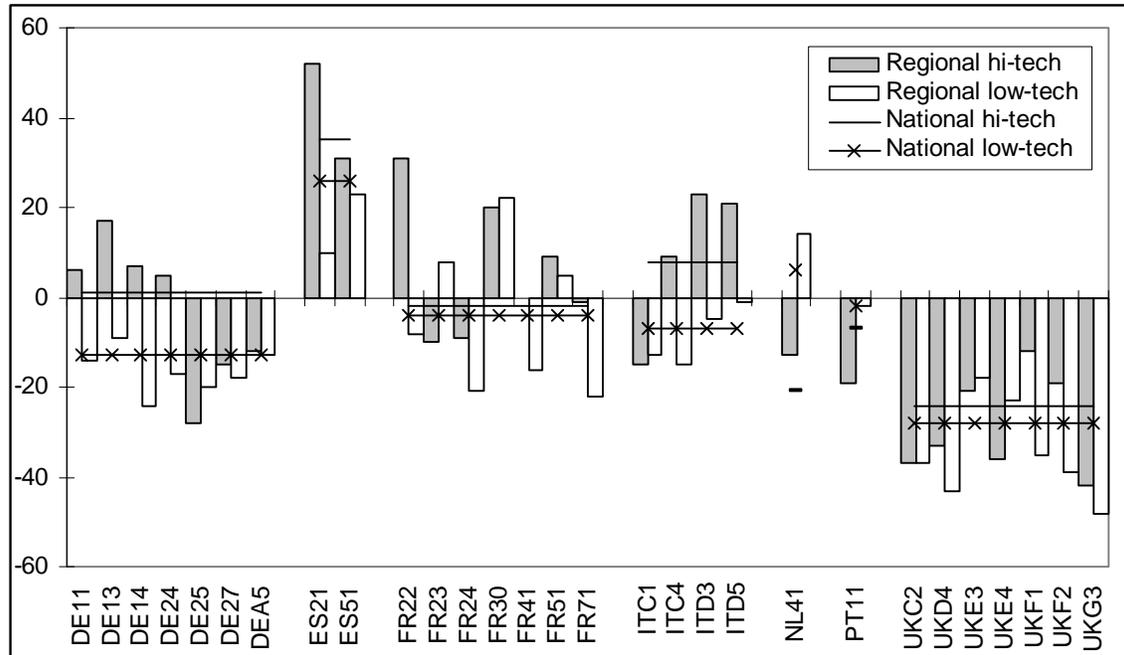
This unevenness becomes more obvious when comparing regional change against the national average. In particular, the fall in industrial employment in UK regions is mostly higher than the national average (-54%) except in Leicestershire (-42%) and Lancashire (-48%). Furthermore, there has not been an equivalent increase in services employment in many of these UK regions, with a majority actually seeing services employment increases well below the national average especially in North East and North West England. There are similarities between structural change in the UK and France, where those French regions losing the most industrial employment have not made up for it with increasing services employment. In contrast, almost all the German and Italian regions have had higher than national increases in services employment, the exceptions in Germany being two regions with above average falls in industrial employment.

Not all LIDRs have experienced similar falls in industrial employment. For example, a number of German, French and Italian regions lost less than 20% of their industrial employment at the same that they gained significant levels of services employment. The individual regions from Denmark, Netherlands and Portugal also followed this trend. Overall, what the data suggests is that declining levels of industrial employment (both relative and absolute) do not correspond to rising levels of services employment. This would imply that LIDRs have not benefited from restructuring in the same ways and that falling industrial employment does not necessarily lead automatically to rising services employment. Thus there is little evidence that the change in industrial structure has led to the replacement of industrial jobs, but rather that those regions which have retained a relative stronger industrial base have actually added to it with strong services employment gains.

#### 4.2 *Upgrading and Deskillling*

We have split regional upgrading between manufacturing and services employment in order to consider whether changes in the regional industrial structure highlighted above have been accompanied by changes in skilled employment. In Western Europe's LIDRs, high-tech manufacturing employment has both fallen and risen (see Figure 2). There seems to be an overall trend of decline in northern countries (e.g. France, Netherlands and Britain) and growth in southern countries (e.g. Italy and Spain). Between 1995 and 2005, the highest increase was in Pais Vasco (52%) and the largest decline was in the West Midlands (-42%). Such skilled manufacturing employment has declined in all British regions, to varying degrees, as has low skilled manufacturing employment: in most cases this was higher than the national fall. Furthermore, the Dutch and Portuguese regions have experienced falls in high-tech employment. In contrast, both Spanish regions have had increases in high and low skilled manufacturing employment, although not necessarily above the national average.

Figure 2. Western Europe: change in employment in high and medium high technology manufacturing sector (hi-tech) and low and medium low technology manufacturing sector (low-tech), total percentage by region and nation, 1995-2005



Source: Eurostat, Regional Science and Technology Statistics.

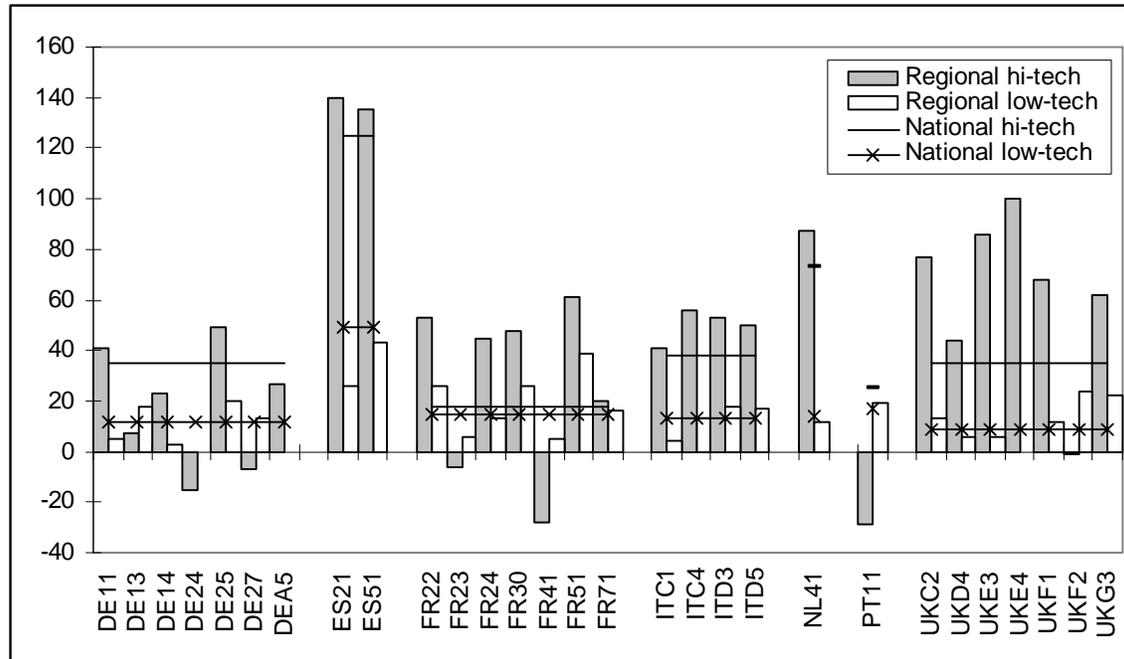
Note: UK data 1996-2005.

German and Italian regions were similar with some regional increases in high-tech manufacturing, whilst all the regions had decreases in low-tech manufacturing. The regional growth in high-tech – where it occurred – was above the national average in both countries, whilst the low-tech falls were mostly above the national fall. Such findings are suggestive of a shift in industrial structure away from low skilled employment towards high-tech manufacturing. However, there were still cases of regions losing skilled employment, especially Mittelfranken (-28%) and Piemonte (-15%), which were significant falls considering that the national trend was a positive increase in both countries. The picture for France is more varied, although there is a general national fall

in both high and low tech employment. Some regions like Picardie (31%), Nord-Pas-de-Calais (20%) and Pays de la Loire (9%) have increased skilled manufacturing employment, whilst others like Haute-Normandie (8%), Nord-Pa-de-Calais (22%) and Pays de la Loire (5%) have had increases in low-skilled employment. The growth in both high and low tech manufacturing in two of these regions is particularly interesting considering the expected shift from low to high skilled employment.

Alongside the variations in changes to skilled manufacturing employment across these regions, high-tech services have also developed unevenly (see Figure 3). The highest growth was again in Pais Vasco (140%), with Catalonia not far behind (135%), whilst such employment actually declined in Norte Portugal (-29%). A number of trends are evident across the LIDRs, not least of which is that no region had negative change in low-skilled services employment. In particular, the German and French regions share similar trends with several regions increasing skilled and low-skilled services employment, with a couple of regions in each country suffering falls in skilled employment. However, in contrast to Germany, most French LIDRs with growth in high-tech services were above the national average. Unlike manufacturing employment change, British and Italian regions were fairly similar with above national average growth in skilled services employment and close to the national average growth in low-skilled employment. What is especially striking is that the British regions had significant increases in high-tech services, in most cases well above the national average, although there was more variation than Italian regions.

Figure 3. Western Europe: change in employment in knowledge-intensive high technology services (hi-tech) and total less-knowledge intensive services (low-tech), total percentage by region and nation, 1995-2005



Source: Eurostat, Regional Science and Technology Statistics.

Note: UK data 1996-2005.

In light of the policy legitimization offered by the knowledge economy thesis, we would expect there to be a significant Western European shift from low-tech to high-tech employment in both manufacturing and services. Such change should result from greater competition on labour costs from transition economies in Eastern Europe and developing countries elsewhere and an emphasis on high value-added sectors in West European policy. However, despite this policy discourse there are considerable differences between regions and between countries. The absolute (and relative) decline in British high-tech manufacturing has not necessarily been offset by the growth in high-tech services because the industrial structure in these regions weighted towards manufacturing

employment means that the decline has led to high absolute falls in comparison to low absolute rises in high-tech services. For example, between 1996 and 2005 the West Midlands lost over 57,000 high-tech manufacturing employees and only gained around 17,000 high-skilled services jobs. Across all the Western European LIDRs the absolute growth in high-tech employment (manufacturing and services) seems to depend on the retention of high-tech manufacturing jobs since only five regions had absolute increases in high-tech overall and falls in high-tech manufacturing. In contrast, of the 13 regions with growth in high-tech manufacturing, only one had an absolute fall in high-tech employment overall.

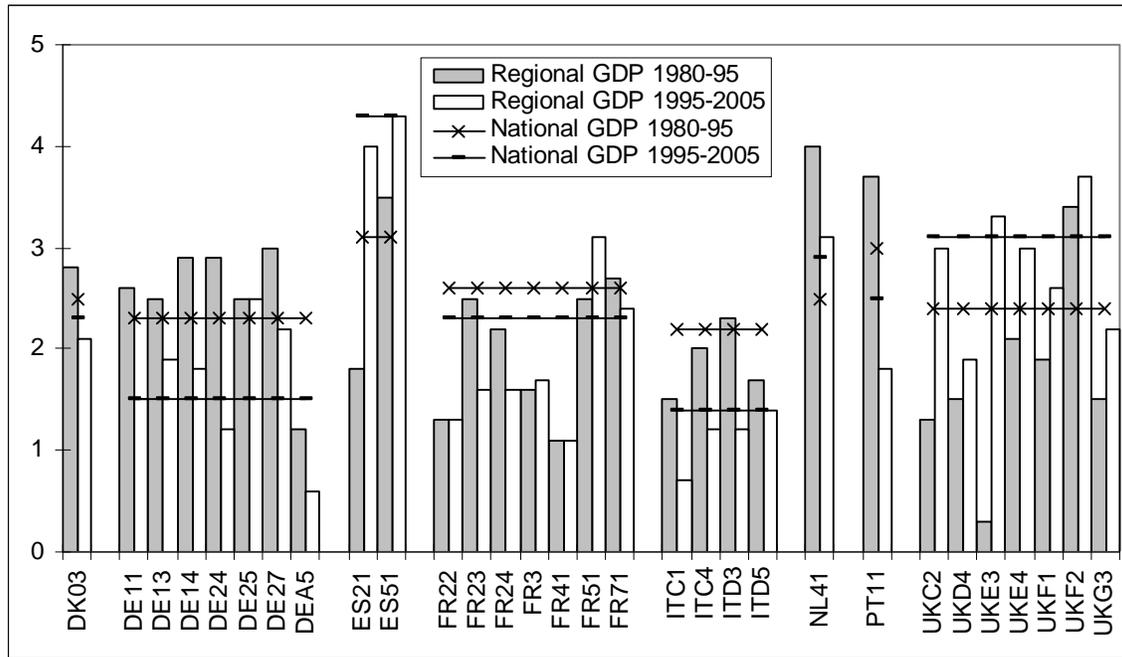
#### *4.3 Regional Performance*

The final aspect of regional restructuring we consider is whether regional economic performance has improved, here represented by GDP change between 1980 and 2005 (see Figure 4). We have split GDP change between two periods: (i) the early roll-back phase of neoliberalism characterised by deregulation and (ii) the later roll-out neoliberalism of state-led free markets. We are concerned with annualised GDP rate between 1980 and 1995 to represent the former and then the rate between 1995 and 2005. The most obvious finding is that almost all of Western Europe's LIDRs follow the national trend in GDP performance across these two periods, with a few notable exceptions such as Nord-Pas-de-Calais, Pays de la Loire and Noord Brabant. Both Spanish and British regions experience a higher annual rate between 1995 and 2005, whilst most other regions have a lower rate in this period. What this suggests is that GDP rates are tied to national conditions. However, despite the higher annual growth rates in

the British regions, only two of these are actually above the national average for the later period, whilst both Spanish regions are close to Spain's rate.

The highest annual growth rates between 1980 and 1995 are in Noord Brabant (4%), Norte Portugal (3.7%), Catalonia (3.5%) and Leicestershire (3.4%), all of which are above their respective national average. The lowest growth rate is in South Yorkshire (0.3%). For the 1995 to 2005 period, the highest annual growth rates are in the Spanish regions of Catalonia (4.3%) and Pais Vasco (4%), whilst the lowest is in Arnsberg (0.6%). Despite the fall in growth rates in other German regions, they still outperform the national rate whereas most French regions, especially those in north-east France, and Italian regions are below the national rate in both periods. This suggests that the German regions are driving German economic performance, whilst both French and Italian regions are largely trying to catch up with the national rate; the same as most British regions.

Figure 4. Western Europe: regional and national change in gross domestic product, annualised percentage rate by region and nation, 1980-1995 and 1995-2005



Source: Cambridge Econometrics, European Regional Data.

Note: German national average is based on West Germany only.

Overall these growth rates illustrate the extent to which regional performance is tied to national performance supporting the argument that there are national systems of capitalism. A second point to take from this analysis is that, although there are national systems of capitalism, regional economic performance is still distinct from national performance. In particular, the variations in annual growth rates across Western Europe's LIDRs illustrate the differential impact of restructuring and neoliberal adjustment on different regional economies. It therefore supports the argument that there are varieties of neoliberalism rather than the view that neoliberalism is a condition or end point of restructuring. As a process, neoliberalism does not have an end result, but rather involves

a shifting emphasis in state-market policy with regards to the potential of economic sectors to provide economic growth in the face of new economic imperatives. However, it does not necessarily mean that industrial structure is not important to growth since there have been a number of different forms of adjustment across Western Europe that we outline next.

#### *4.4 Three Scenarios of Neoliberal Adjustment in Western Europe*

The first scenario of neoliberal adjustment is one of regional de-industrialisation and deskilling. These regions include most in Britain as well as one or two from Germany (e.g. Oberfranken and Schwaben), France (e.g. Haute-Normandie), Italy (e.g. Piemonte) and Norte Portugal. Somewhat paradoxically, the shift towards services, including low-skilled services, and loss of high-skilled manufacturing has not proved detrimental to regional economic performance since most of these regions have reasonable annual growth rates, especially the British regions, although growth rates are not necessarily better than the national average. Thus these regions can be seen as creating regional services economies increasingly dependent upon consumer spending rather than export-led competitiveness.

The second scenario fits most closely with the knowledge economy thesis in that although these regions have experienced a loss of industrial employment they have managed to retain and even increase high-tech manufacturing employment alongside growth in high-tech services; both absolutely and relatively. They have therefore enjoyed a high degree of upgrading across all sectors. In this category are the two Spanish regions, Stuttgart, three French regions (Picardie, Nord-Pas-de-Calais, Pays de la Loire),

and three Italian regions (Lombardia, Veneto and Emilia-Romagna). Despite the growth in high-tech employment, the GDP performance of these regions is relatively poor with all of them either below or equal to the national growth rates. What this perhaps illustrates is the creation of regional ‘competitive austerity’ (see Cafruny and Ryner, 2007, p.10) with these regions dependent upon export-oriented sectors and therefore tied into productivity growth through cuts to wages and benefits that inhibit the stimulation of internal demand.

The final scenario is a picture of both services upgrading and manufacturing deskilling across regions such as Mittelfranken, Rhone-Alpes, Noord Brabant, South Yorkshire and Derbyshire with an overall rise in high-tech employment. The economic performance of these regions is largely better than the national average in both periods, except for the British regions, suggesting that they have successfully adapted to the changes in industrial structure. Arguably, the loss of high-tech manufacturing has meant that these regions have benefited from higher internal demand rather than dependence upon export-led sectors.

## **5. RESTRUCTURING ACROSS LARGE INDUSTRIALLY-DEPENDENT REGIONS IN EASTERN EUROPE**

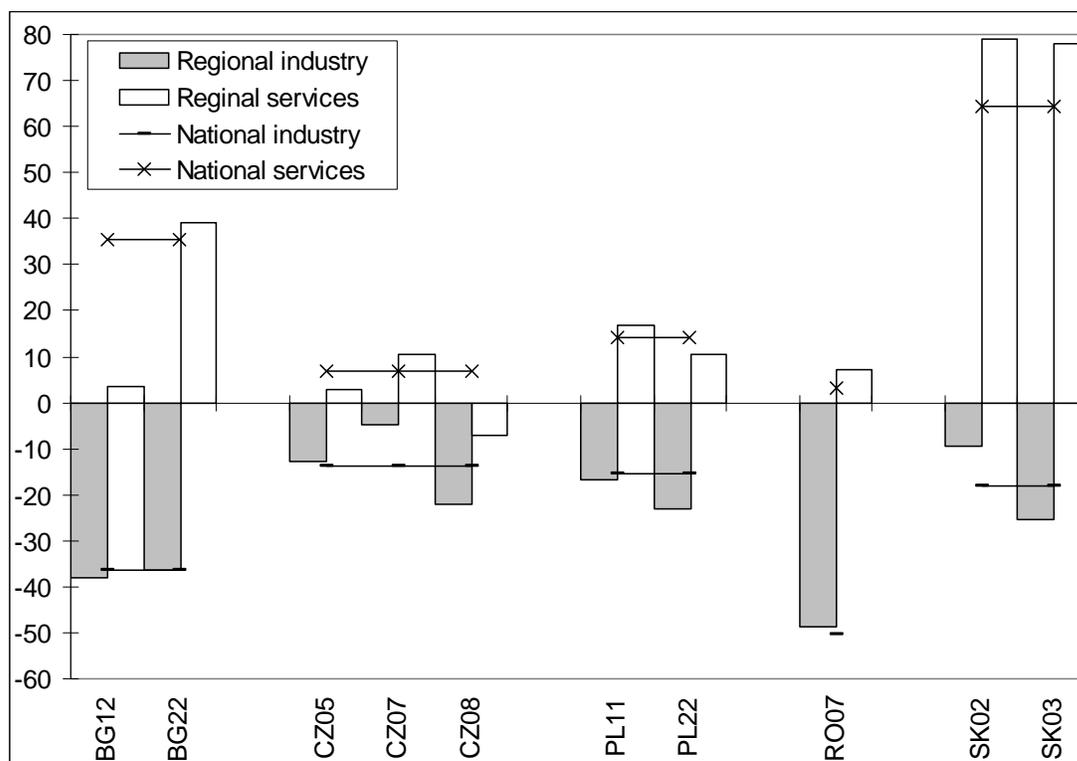
### *5.1 Structural Change*

We start assessing the scale and emerging patterns of neoliberal adjustment in post-communist Europe by comparing long-term employment changes in industrial and services employment of the ten LIDRs in the new European Union member-states (see Figure 5). It appears that the three Bulgarian and Romanian LIDRs have suffered the

most acute consequences of severe de-industrialisation. The degree of industrial job destruction that has hit Severen, Yuzhen and Centru regions was rather dramatic and, generally, on par with the national experience. Between 1990 and 2005, Severen lost 38% of its industrial jobs. At the same time, the growth in services employment was insignificant, resulting in the net loss of 74,000 jobs. Yuzhen lost 37% of all industrial jobs. At the same time, Yuzhen's services grew by over 39%, outpacing Bulgaria's national average.

However, given the low level of development of market services under state socialism, the amount of newly-created jobs in the services sector did not alleviate the decline in industrial employment, resulting in a net job loss of 57,600. The employment decline in Romania's Centru region was even more dramatic. The region's industry lost 49% of its employment which, combined with a dismal growth in services, resulted in a net destruction of 269,900 jobs. In terms of total net loss of employment under post-communism, these three LIDRs were joined by the Czech region of Moravskoslezsko. A relatively moderate 22% decline in industrial employment in Moravskoslezsko was accompanied by a 7% decline in services, resulting in a net loss of 65,900 jobs.

Figure 5. Eastern Europe: change in employment in energy and manufacturing (industry) and market services (services), total percentage by region and nation, 1990-2005



Source: Cambridge Econometrics, European Regional Data.

The processes of neoliberal adjustment in the Czech Republic's Severovýchod and Strední Morava and Slovakia's Západné Slovensko were characterised by a rather mild level of de-industrialisation: 13% in Severovýchod, 10% in Západné Slovensko and 5% in Strední Morava. The level of restructuring of the two Polish LIDRs and Slovakia's Stredné Slovensko was higher at 17%, 23% and 26% respectively. On the other hand, the expansion of market services in the two Slovak LIDRs was truly remarkable, amounting to 79% on average. Only in these two LIDRs, along with the Czech Strední Morava region, was the net change in employment positive. Despite some growth in services

during the 1990-2005 period, neither Poland's Łódzkie and Śląskie regions, nor the Czech Republic's Severovýchod managed to recover employment losses.

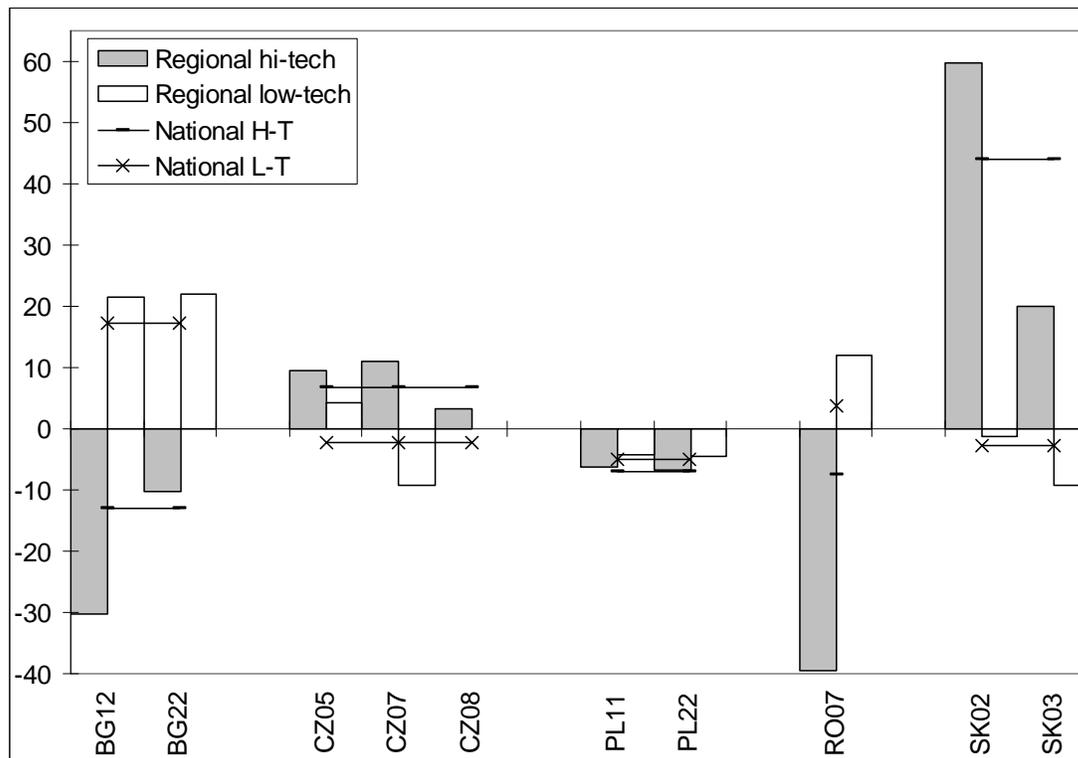
## 5.2 *Upgrading and Deskilling*

There is a diverse picture of upgrading in post-communist countries (see Figure 6). On the one hand, Bulgarian and Romanian LIDRs have gone through the process of manufacturing downgrading, with a decline in high-tech and growth in low-tech industries, and Polish LIDRs have experienced the wholesale de-skilling of industry, with a simultaneous decline in both high- and low-tech industries. On the other hand, Czech and Slovak LIDRs have experienced a process of manufacturing upgrading, fairly modest in the Czech cases, yet more significant in the Slovak ones.

In terms of manufacturing upgrading, the record of the Romanian Centru region was the most negative amongst all the East European LIDRs, as the region lost 40% of its high-tech industrial jobs, much higher than the national average (8%), replacing some of them through a 12% increase in low-tech manufacturing. Employment in the high-tech manufacturing sector in Bulgaria's Severen region declined by 30% and was well over the national level. At the same time, the region's low-tech manufacturing industries expanded, increasing their workforce by 22%. In Yuzhen, high-tech industrial employment declined by 10%. The trend of manufacturing downgrading in Yuzhen was further reinforced by growth in low-tech manufacturing of 22% - by far the highest in Eastern Europe and better than Bulgaria's average. In turn, Poland's Łódzkie and Śląskie regions lost 6% and 7% of hit-tech industrial jobs *as well as* 4% and 5% of low-tech industrial jobs respectively, all about the national average. Overall there is a record of

upgrading across some regions, but, at the same time, most of these LIDRs also lost low-tech employment.

Figure 6. Eastern Europe: change in employment in high and medium high technology manufacturing sector (hi-tech) and low and medium low technology manufacturing sector (low-tech), total percentage by region and nation, 2000-2005

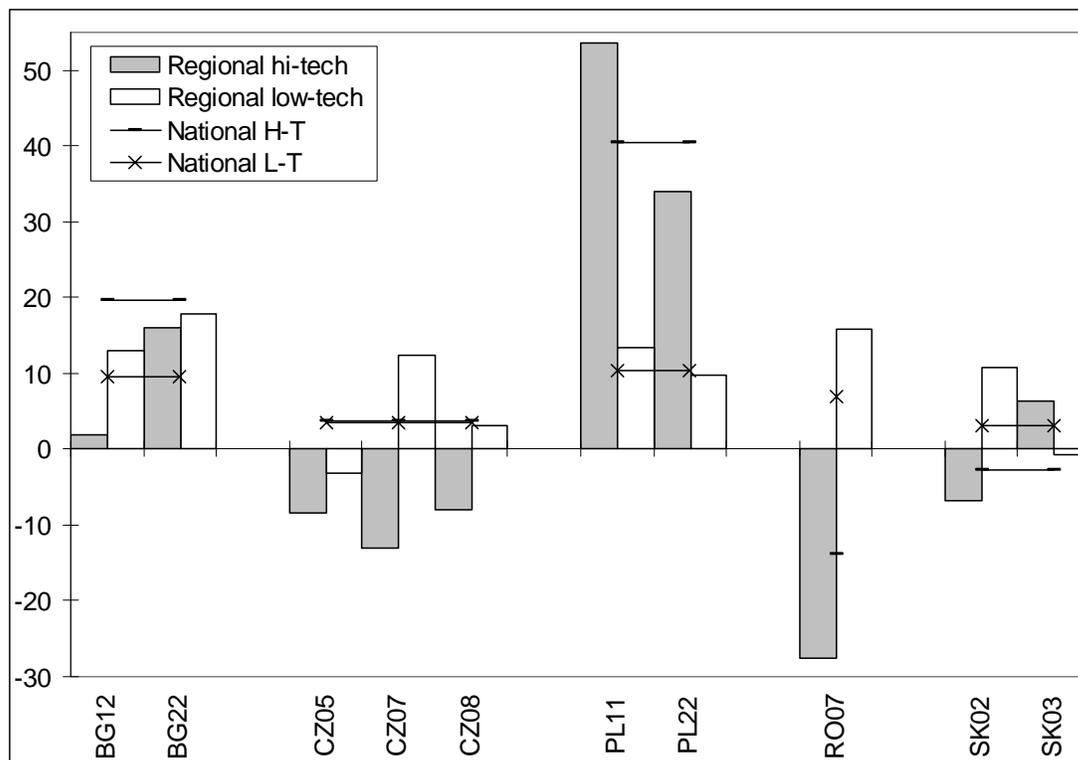


Source: Eurostat, Regional Science and Technology Statistics.

The restructuring of the services sector in the Bulgarian and Polish LIDRs was characterised by an uneven dual process of upgrading and de-skilling (see Figure 7). Throughout the period of transformation, Severen's high-tech services grew by less than 2%, compared to Bulgaria's average of 20%. However, the growth by 13% of the region's low-tech services outpaced the national average of 10%. Yuzhen experienced the

third biggest expansion of high-tech services amongst the East European LIDRs (by 16%), which was, nevertheless, lower than the country's average. At the same time, the region's employment in low-tech services expanded by 18%, twice the national average and the highest level in Eastern Europe.

Figure 7. Eastern Europe: change in employment in knowledge-intensive high-technology services (hi-tech) and total less-knowledge-intensive services (low-tech), total percentage by region and nation, 2000-2005



Source: Eurostat, Regional Science and Technology Statistics.

In the two Polish regions, on the other hand, it is the rapid expansion of high-tech services over moderately growing low-tech services that characterised this dual process of the services development. In Łódzkie, high-tech services jobs increased by 54% (with

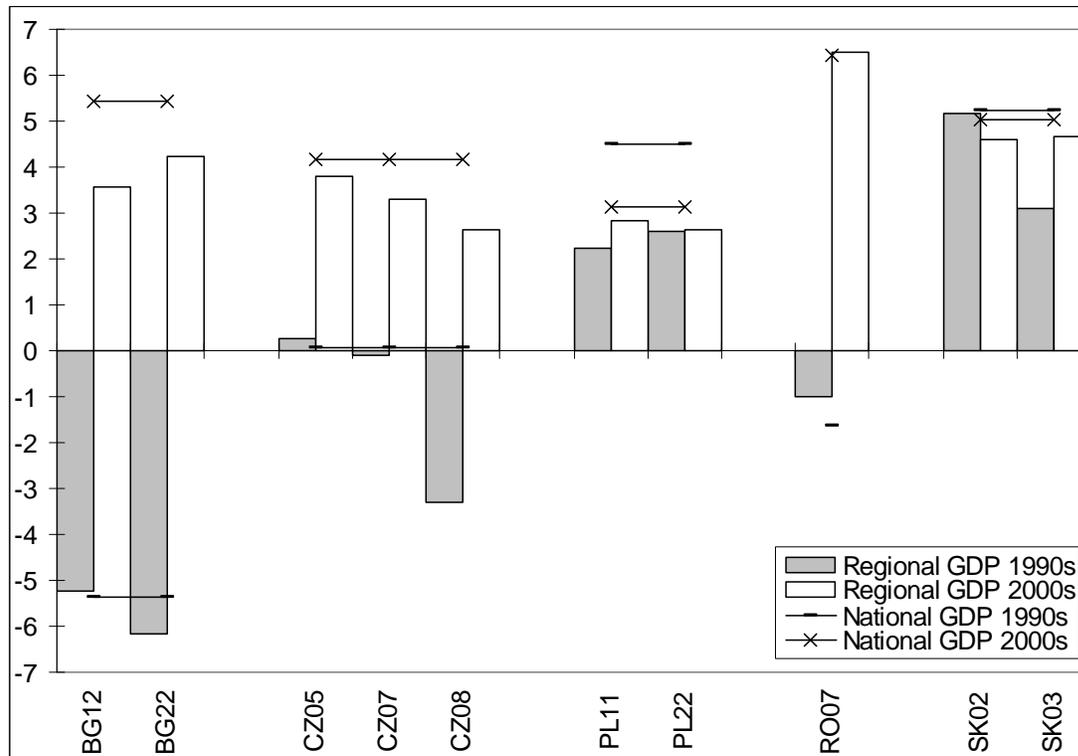
the national average of 40%), whereas the expansion of high-tech services in Śląskie stood at 34%. At the same time, low-tech services in the two regions grew in employment by 14% and 10% respectively.

With one minor exception of Slovakia's Stredné Slovensko, which has experienced a modest level of services upgrading, all of the other East European LIDRs have gone through a phase of significant downgrading of the services sector. The decline in high-tech services jobs has ranged from Centru's 28% to Západné Slovensko's 7%, with the three Czech LIDRs of Severovýchod, Strední Morava, and Moravskoslezsko positioned in the middle with 8%, 13% and 8% respectively. Growth in the low-tech services employment was moderate in Centru (16%), Strední Morava (12%) Západné Slovensko (11%), and minimal in Moravskoslezsko (3%), with Severovýchod and Stredné Slovensko adjusting their low-tech services downwards at -3% and -0.7% respectively.

### *5.3 Regional Performance*

The regional restructuring of East European economies has generated widely disparate long-term growth trajectories (see Figure 8). On the one hand, the economies of Romania's Centru, Moravskoslezsko (Czech) and, especially, Bulgaria's two regions suffered a profound economic depression throughout the 1990s – a decade of intense 'transformational' destruction. The economy of Moravskoslezsko shrunk by one third, whilst Severen's GDP declined by 53% and Yuzhen's by 62%, compared to Bulgaria's overall GDP decline of 54%.

Figure 8. Eastern Europe: regional and national change in gross domestic product, annualised percentage rate by region and nation, 1990-2000 and 2000-2005



Source: Cambridge Econometrics, European Regional Data.

Although in the second ‘creative’ stage of neoliberal adjustment, economic growth has resumed in all the LIDRs, it is slower than the national level in all the ten cases. If the average annual growth rates of Severen, Moravskoslezsko and Yuzhen depicted in Figure 8 are sustained over longer time, the three regions’ pre-‘transitional’ level of output would only be regained in 2013, 2014, and 2016 respectively, thus, extending the ‘lost decade’ of post-communist transition to a quarter of a century. The two remaining Czech LIDRs (along with the whole Czech economy) stagnated during the 1990s, accelerating in the 2000s at lower than national rates of growth. The Polish LIDRs generated slow but stable growth during the both phases of neoliberal adjustment. It is the

two Slovak LIDRs, however, that produced the most remarkable performance, growing at fairly fast rates over the entire 1990-2005 period.

#### 5.4 *Three scenarios of neoliberal adjustment in Eastern Europe*

Again, three broad paths of restructuring can be identified in the trajectories of East European LIDRs. The first one is of severe de-industrialisation, massive loss of full-time regular employment, and the wholesale downgrading of economic activities and skills. Skills downgrading is the most intense and sharp in the industrial sectors but, typically, it has its profound impact on the nature of services as well. The 'path-destruction' phase of neoliberal adjustment is particularly harsh amongst these *de-skilling LIDRs*: the actual amount of GDP lost throughout the 1990s has ranged from 10% at best to 62% at worst. After fifteen years of transformation, all but one of these LIDRs needs at least another decade to recover fully and regain the 1990 GDP level. The job creation record of these LIDRs has also been the worst, with the overall net loss of 467,500 jobs between 1990 and 2005.

The second path of regional restructuring under post-communism is characterised by a total break from the industrial past towards the services sector. Overall, it includes both a moderate degree of de-industrialisation and a moderate development of the service sector. Yet in terms of technological capacities, the second path of adjustment involves an absolute (albeit mild) decline in both high-tech and low-tech manufacturing accompanied by a very rapid and significant expansion of high-tech services with a moderately high growth in low-tech services. The 'path-destruction' phase of neoliberal adjustment does not entail a longer-term reduction in output amongst these *services*

*upgrading LIDRs*. Yet economic growth in these regions is rather modest – though fairly stable – with average annualised rates of 2.4% in the 1990s and 2.7% in the 2000s. The employment performance of the services upgrading path of LIDRs has been negative, accumulating a net loss of 96,100 jobs over the period.

The third path of neoliberal adjustment is characterised by manufacturing upgrading. It includes mild de-industrialisation and, in some cases, an expansion of market services. However, the defining feature of this scenario is the upgrading of the manufacturing sector, accompanied by a decline in low-tech manufacturing. The story of the services sector is almost reversed: growth in the services employment is almost exclusively confined to low-tech services, whereas high-tech services are in decline. The growth performance of the *manufacturing upgrading LIDRs*, as that of most other LIDRs in Eastern Europe, appears to depend on the respective national economy. However, those LIDRs which have achieved a significant increase in high-tech manufacturing employment tend to generate by far the fastest growth rates in comparison with other East European LIDRs. Finally, these manufacturing upgrading LIDRs have been the only regions in Eastern Europe with a net positive employment growth between 1990 and 2005, amounting to a total of 85,500 jobs.

## **6. CONCLUSION AND POLICY IMPLICATIONS**

We have drawn two broad conclusions from the preceding empirical analysis and considered the policy implications of these in the final paragraph. First, regional restructuring and economic growth trajectories have followed national trends fairly closely in most cases, especially in Eastern Europe. However, there are still differences,

since some regions have diverged from the national process of neoliberal adjustment. We can therefore identify, as we sought to do, *varieties of neoliberalism* across the European regions we have considered in this article. For example, the industrial structure of a few German, French and Italian regions has not changed as dramatically as the national average, whilst GDP growth rates in some regions have been significantly better than national rates (e.g. Mittelfranken, Schwaben, Pays de la Loire). Thus, despite the close fit between national and regional trajectories, the restructuring that these large industrially-dependent regions have undergone are individually distinguishable.

Second, regional restructuring in these LIDRs seems to have followed three major patterns, although there is obviously divergence within these as well. The first pattern is one of severe de-industrialisation, including high-tech manufacturing, exemplified by Britain in the West and Bulgaria and Romania in the East. The replacement of industrial jobs with service sector ones is mixed across these regions, some fairing better than others, with poor GDP growth in the early period giving way to better performance later. The second pattern is one of manufacturing and services upgrading, which is largely limited to Western Europe in regions from Germany, France, Spain and Italy, and to Slovakia in the East. These regions perform well against the national average in GDP growth rates, but have not necessarily improved between the two periods we analysed. Those regions which have increased manufacturing and services high-skilled employment perform the best. A final pattern is one of services upgrading and de-industrialisation, which is evident in a number of regions, but is only connected to a good GDP performance in a small number of regions. This pattern is most evident in Noord Brabant, Central France, two UK regions and Poland.

These two broad conclusions have several implications for policy-making driven by neoliberal concerns. Most crucially for the purpose of this article, neoliberal adjustment has resulted in a striking disparity of long-term restructuring outcomes amongst the European LIDRs. In Eastern Europe the best performing region in the 1990-2005 period enlarged its absolute GDP by 87%, the worst performing one experienced a decline of 53% in total, whereas in Western Europe, between 1980 and 2005, the best performing region increased by 117% against 25% for the worst. Furthermore, even though countries like Britain (i.e. those experiencing the severest restructuring) had high growth rates between 1995 and 2005, they have produced an unequal absolute performance overall with South Yorkshire increasing its GDP by 38% in 25 years against 108% for Leicestershire. Thus it is perhaps worthwhile to consider what this means for future European policy-making driven by policy discourses that justify such outcomes.

There are several regional examples of restructuring that reflect the policy discourses of *knowledge-based economy* and *over-industrialisation*, although others do not. In particular, several regions in Western Europe have actually retained low-tech manufacturing alongside high-tech manufacturing (e.g. Spanish regions, two French regions), whilst a few Eastern European regions have managed to upgrade their manufacturing base (e.g. Slovakia). What this suggests is that the pursuit of a one-size-fits-all policy agenda, driven by the neoliberal imperative of global competitiveness, for all European regions is short-sighted. The support of new 'knowledge' sectors at the expense of existing structural conditions can prove costly, both economically and, more importantly, socially. Furthermore, support for particular sectors will benefit those regions with an existing capacity for those industries, which means that LIDRs will be

more threatened by neoliberal adjustment than other regions dependent upon market services and 'knowledge' sectors. It is therefore likely that the drive to become the world's most competitive knowledge economy with the attendant demands for increasingly deregulation, labour market flexibility and trade liberalisation will impact detrimentally on the employment prospects of LIDRs inhabitants, whilst the economic performance of these regions will not necessarily be sufficient to offset the problems brought on by increasing social divisions and inequality.

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## APPENDIX

Table 1. Regional Codes and Names

Regional Code	Country	Original name
Western Europe		
DK03	Denmark	Vest for Storebælt
DE11	West Germany	Stuttgart
DE13	West Germany	Freiburg
DE14	West Germany	Tübingen
DE24	West Germany	Oberfranken
DE25	West Germany	Mittelfranken
DE27	West Germany	Schwaben
DEA5	West Germany	Arnsberg
ES21	Spain	Pais Vasco
ES51	Spain	Cataluña
FR22	France	Picardie
FR23	France	Haute-Normandie
FR24	France	Centre
FR30	France	Nord - Pas-de-Calais
FR41	France	Lorraine
FR51	France	Pays de la Loire
FR71	France	Rhône-Alpes
ITC1	Italy	Piemonte
ITC4	Italy	Lombardia

ITD3	Italy	Veneto
ITD5	Italy	Emilia-Romagna
NL41	Netherlands	Noord-Brabant
PT11	Portugal	Norte
UKC2	United Kingdom	Northumberland, Tyne and Wear
UKD4	United Kingdom	Lancashire
UKE3	United Kingdom	South Yorkshire
UKE4	United Kingdom	West Yorkshire
UKF1	United Kingdom	Derbyshire and Nottinghamshire
UKF2	United Kingdom	Leicestershire, Rutland and Northants
UKG3	United Kingdom	West Midlands
Eastern Europe		
BG12	Bulgaria	Severen tsentralen
BG22	Bulgaria	Yuzhen tsentralen
CZ05	Czech Republic	Severovýchod
CZ07	Czech Republic	Strední Morava
CZ08	Czech Republic	Moravskoslezsko
PL11	Poland	Łódzkie
PL22	Poland	Śląskie
RO07	Romania	Centru
SK02	Slovakia	Západné Slovensko
SK03	Slovakia	Stredné Slovensko

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