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MARKETS AND THE STATE AND THE ROLE OF LOCAL REGENERATION STRATEGIES: A CASE STUDY OF THE DEFENCE SECTOR IN THE UK IN THE 1980s

Abstract: This paper reviews current practice and thinking in the UK with respect to changes occurring in the defence sector. Planned responses and interventionist measures to deal with the consequences of large scale job losses have not been adopted by the UK Government during the 1980s. However, many of the changes have been triggered or directly caused by the Government's own policies to create a free-trade and liberalised market economy. An opportunity has arisen for localities, through a growing local economic development function, to play a role in such readjustment. This paper examines the extent to which such local responses can exercise any effective control over the future direction and impact of restructuring, and in particular address the role of the military-industrial complex, arms conversion and the Peace Dividend from this perspective.

Key words: industrial restructuring, local development, defence sector, industrial policy, UK economy.

1. INTRODUCTION

This paper seeks to examine the changing relationship between the state and markets in a period of dramatic ideological and economic change in the UK. Specifically the role of local economic development activities is assessed in so far as they have been able to respond to two major events of the 1980s and early 1990s; the liberalisation of the defence industry, and the reduction of national defence expenditure in the light of changing security scenarios emerging from the shift in East-West relations.

In the 1980s there was a dramatic increase in local economic development activity in the UK, mainly undertaken or supported by local authorities. At best

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this was characterised by positive attempts to respond to the problems of plant closures, redundancies and unemployment. At worst it was regarded as no more than the latest local government bandwagon or fashionable playground for the left (BENINGTON, 1986). Local economic strategies were briefly seen as a crucial element of any alternative policy to the burgeoning impact of the liberalist policies of the Thatcher Conservative Government. At the heart of this conflict was the extent to which localities and their communities could influence what appeared to be increasingly global trends overseen by a perceived centralist government (COCHRANE, 1988; HARLOE et al, 1990; McINTOSH and WAINWRIGHT, 1987). Local government, in particular, had to face the challenge of industrial restructuring, central government policies encouraging the deregulation and the liberalisation of markets, and a consistent reshaping of the role of the state in terms of public goods and services, public ownership and public expenditure on economic intervention and initiatives.

By the 1990s as the defence sector faced its nadir with the dramatic changes in East-West relations, two further significant factors had come to play a part. The first was the apparent attempt to 'depoliticise' local economic development activity and possibly to curtail the role of local government in this field. This was related to the establishment of business led Training and Enterprise Councils in England and Wales and Local Enterprise Companies in Scotland (TECs and LECs), and the use of government appointed quangoes in certain areas, such as urban development corporations and the Urban Regeneration Agency. The second factor was the increasing importance that European wide issues were given in national policies. The implementation of the Single European Market triggered a number of responses, not least the re-iteration of free liberalised European wide market for industrial goods and services. As a result, local economies have become to be seen as having no meaningful existence. They can only be regarded as nodes within the global economic network with very little scope to remain self-determinant (AMIN and ROBINS, 1991; LOVERING, 1988).

The defence sector provides an illustration of these processes, as it links the experience of localities with the wider forces of change. Of particular interest are the political agendas associated with defence strategies (for example nuclear weaponry), industrial policy and national R&D capacity (for example defence conversion), and public expenditure (for example the use of a peace dividend). The restructuring of the defence sector has also introduced the need for local economic development to conservative areas in the UK which previously had little need for or gave little support to such interventionist approaches. On the other hand the national Labour Party response has also been seen to be potentially ineffective (LOVERING, 1990; QUIGLEY, 1991; VOSS, 1992).

2. THE UK DEFENCE SECTOR AND POST COLD WAR CHANGES

The extent of the defence sector has been addressed by a number of local impact and dependency studies (e.g. BRADDON et al, 1991; FELOY et al, 1992; Fife RC, 1991; STONE and PECK, 1992), but also at the European level (CEC, 1992). The most common way to measure the extent of the defence sector to produce national comparisons is to examine levels of state military expenditure. In the UK, the statement on Defence Estimates prepared by the Ministry of Defence (MoD) indicated expenditure of £24.2 billion for 1992/93. About 37% was allocated to equipment purchase and 42% to pay and pensions (Ministry of Defence, 1992). In 1990 the UK was one of the three largest defence spenders in the European Community (21% of all EC expenditure on defence), and was ranked second only to Greece in terms of expenditure as a share of GDP (CEC, 1992). The UK was the largest spender on equipment, and the Ministry of Defence was British industry's largest single customer. Even these measures do not convey the complete picture, since Britain's defence industry also has a considerable international trade in armaments. In 1990/91 it was estimated the industry generated £2 billion of exports (Ministry of Defence, 1992), making the UK state one of the worlds largest exporters with the USA, France and former USSR.

Employment can be considered a more reliable measure of defence activity, according to the authors of the recent CEC study, because of the complexities of subcontractor relationships and unique nature of military bases. Thus the sector can be seen to consist of:

a) Ministry of Defence employment in the armed services, bases, depots and research establishments, with a proportion based overseas;

b) the main defence equipment suppliers or defence industry;

c) the main non-Ministry of Defence research and service activities;

d) a large number of sub-contractors and secondary suppliers, some of which might be unaware of the defence end-use of their activities; following a view of recent available data, it has been estimated that such multipliers are in the range of 1.75 to 2.00 for defence industries and 1.10 to 1.50 for military bases.

The Ministry of Defence estimate that in 1991 there were some 298,000 services personnel and 140,000 Ministry of Defence civilian workers (a total of about 440,000 of which 22% or 97,000 were deployed overseas), and another 545,000 jobs were dependent on defence expenditure (280,000 in primary suppliers and 260,000 in sub-contractors). To this total of 983,000 a further 400,000 jobs have been estimated as being dependent on the purchasing power of these workers (MONEY, 1992).

The defence sector in the UK is not a homogenous entity, and the reason for changes in employment and economic activity have arisen from a number of factors, some recent others more structural, long-term and deep seated (DUNNE and SMITH, 1993). The main influences on the UK defence sector can be summarised thus:

1. A decline in state military expenditure which started in the 1980s but accelerated as a consequence of defence reviews, in particular 'Options for Change' (Ministry of Defence, 1991).

2. Changes in defence procurement practices, which saw a movement away from the close relationship between the Ministry of Defence and main UK suppliers in an attempt to introduce more competition and efficiency. In addition the Royal Ordnance factories were privatised in 1985 and the Royal Dockyards changed to contractual management control in 1987.

3. In the light of reductions in home based defence budgets, the defence industry attempted to seek new or expanding markets abroad but met with more competition from developing countries (for example India and Brazil) and pre-1991 eastern block states, in particular for lower technology equipment.

4. Industrial reorganisation resulting in part from the need for large sums of capital to support R&D and in part from over capacity developed during the Cold War. The drive for greater competitive advantage led to extensive acquisition, merger and joint venture activity between the main equipment suppliers in Europe, as competitors jockeyed for key positions and market share in a post-1992 Single European Market.

The implications of these changes are stark. The UK defence budget is expected to decline by 5% in real terms between 1990/91 and 1994/95. It has been predicted that some 123,000 jobs could be lost in the defence industry during the 1990s, and the 'Options for Change' review indicated a reduction in civilian and service personnel from 470,000 to 387,000, a loss of 83,000 jobs during the mid-1990s (Ministry of Defence, 1991). Such a reduction in employment levels can be compared with losses within the metal manufacture and coal mining industries during the decade 1979 to 1989 which were 320,000 and 180,000 jobs respectively.

The defence employment losses are likely to have particularly severe impacts in specific localities and on certain industries. The importance of defence expenditure to the aerospace and electronics industries (Ministry of Defence, 1992; OAKEY, 1991). The concentration of employment in certain regions of the UK is shown in Defence Estimates (Ministry of Defence, 1992b). These illustrate the high levels of jobs in the South East and South West (equipment related and services), the North and North West (equipment manufacture) and Yorkshire and East Anglia (services personnel).

Whilst there has been several dependency studies in the UK over recent years, they have not adopted a common methodology. The CEC study of European wide dependency attempted to do this and identified eight similar areas in the UK: Cumbria, Cornwall and Devon, Gloucestershire, Wiltshire and Avon, and North Yorkshire, whilst Lancashire had a particular defence industry dependence. Surprising omissions from this mapping exercise, for example Scotland could be accounted for by the broad level of spatial aggregation (NUTS II level). In its conclusion the study argued the importance of taking into account the adaptive capacity of the regions affected when assessing regional impacts. Consequently, any policy response to the changes was seen as requiring flexibility in area designation and in the type of policy instruments used (CEC, 1992).

3. THE MILITARY INDUSTRIAL COMPLEX RESPONSE

The changes in defence sector employment are clearly linked to decisions made by UK Central Government, albeit responding to and being part of wider global trends. There has, however, been a reluctance to take responsibility for the consequences of these changes or to direct and manage any transition. No 'Peace Dividend' has been identified and no special measures introduced (THEE, 1991, VOSS, 1992). Whilst special agencies and initiatives such as Enterprise Zones were established in the wake of coal, steel and shipbuilding job losses the response to employment decline in the defence industry and military has been muted. The policy towards the defence industry has shown no variation from the general economic and industrial policies of Central Government. The Minister responsible for Trade and Industry remarked in reply to a question in the House of Commons that "The Government believe that decisions about diversification are essentially matters for companies themselves [...]. Diversification will take place in British industry as a result of the entrepreneurial skills of industry mangers, and no one else".

The argument not to make a special case for the defence industry has also been made elsewhere (DUNNE and SMITH, 1993) but other agencies close to Government have argued for planned diversification at least and conversion also (NEDC, 1991, POST, 1992). Diversification would see new and additional activities undertaken by the defence companies or by other companies in the same localities to provide jobs and employment. In many cases such diversification has not led to new jobs, for example the acquisition by British Aerospace of car manufacturing and property companies (Rover and Arlington). Conversion would see the same resources, capacity and skills within defence plants utilised for non-military production in direct replacement for defence contracts (MELMAN, 1988, SOUTHWOOD, 1991). Indeed the only industrial policy response has been for the Department of Trade and Industry to hold a series of regional seminars in 1992 for small and medium sized companies supplying the defence market. The aims of the *Changing tack: new perspectives for defence suppliers* seminars were to spread best practice in identifying new market opportunities and to provide ideas and information on ways to adapt performance (DTI, 1992).

Whilst liberal market forces have been applied to the defence industry with little regard for managing or ameliorating the consequences of such a policy, some attempt has been made to manage the transition of ex-Ministry of Defence service personnel from military to civilian life. The Ministry of Defence has allocated resources to various retraining housing and resettlement programmes (Ministry of Defence, 1992).

In the absence of a national response to the consequences of defence restructuring, the government has allowed specific localities to take advantage of urban and regional policy measures (for example Barrow-in-Furness and Plymouth) but these are exceptional cases and run in contradiction to the overall approach to spatial development policies. The Government has also supported the two main European Programmes to emerge in response to the defence sector changes, PERIFRA and KONVER.

PERIFRA programmes were announced in 1991 and 1992 and KONVER programme details were still emerging in 1993. PERIFRA covered help to regions destabilised as a result of events in 1990 and included the conversion of military installations and assisting the creation of alternative employment. For both programmes all regions of the Community were eligible for funding, but objective 1, 2 and 5b areas had precedence. The moneys allocated were small compared to the problem and the structural funds, but were significant in that they were not exclusively aimed at structural fund areas but localities with specific problems. These European programmes and the response of Central Government thus furthered the emerging approach to economic readjustment in the 1980s. This was based on individual localities having to bid for limited resources in order to fund and promote measures to improve their competitive advantage.

This stand-off approach to industrial intervention and lack of planning remedial measures challenged the previous relationship inherent to the military--industrial complex in the UK. The changes in equipment procurement introduced by the Conservative Government had begun this process. However, in the light of defence job losses, company chairman (notably the Chairman of British Aerospace) were openly lobbying Government for an industrial strategy to protect and promote the skills and technological base of the aerospace industry. Some companies have made attempts to readjust to the new defence expenditure scenarios, but this has generally followed the limited routes of diversification (FINCH, 1993, NEDC, 1991, QUIGLEY, 1991).

This response is in contrast to the Trade Union movement stance which increasingly came to support conversion as part of industrial and defence policies (IPMS, MSF and TGWU, 1991), although in practice support is still given to the lobbying for individual military equipment contracts. The history of trade union led conversion at the plant level is characterised more by hopes unfilled than achievements in terms of job retention (LOVERING, 1989, RAMSAY, 1990, WAINWRIGHT and ELLIOTT, 1982, WELLS, 1990). This must be placed in the context of Central Government policy towards trade union activities and dismantlement of all corporatist or union-government-industry agencies, such as the National Economic Development Office.

In the light of the lack of nation-wide approach to managing defence restructuring, either through planned conversion or diversification or through the reallocation of public funds via a 'Peace Dividend', responses have largely emanated from or been implemented at the local level in response to specific problems and plant or base closures (DABINETT, 1992).

4. THE RESPONSE OF LOCALITIES

In concluding a review of diversification policies in defence dependent local economies in Britain in 1989, Lovering believed that over the next five years it was certain that more local level conversion campaigns would occur (LOVERING, 1989). Whilst predicting increased local authority and trade union activity, he was unable to foresee the establishment of Training and Enterprise Councils in 1991, which devolved national programmes for training and enterprise support to the local level, and also established business led organisations to replace the previous corporatism of the Manpower Services Commission. Early local authority efforts may have adopted ideas in the Lucas Plan and the broader political issues connected with conversion and socially useful production (GLC, 1986), but there is evidence in the approaches taken in the 1990s that the responses have become absorbed into pre-existing and more traditional economic development approaches and objectives.

An explanation of this trend lies in a combination of factors, but perhaps the most pertinent are the deep national recession that coincided with the worst defence industry job losses and the increasing legal, financial and political limits placed on local government. A more fundamental and ideological limit was crated by the difficulty of all those parties involved to agree an agenda for the defence sector. The political demands of defence workers, defence companies, trade unions, Ministry of Defence and the peace lobby do not converge easily. In turn, local authorities faced by immediate problems of job losses adopted pragmatic and traditional objectives, often subsuming the defence sector within existing programmes for manufacturing industry generally. The apparent depoliticising of the issues surrounding the defence sector is likely to be reinforced by the desire of Training and Enterprise Councils and Local Enterprise Companies to become increasingly involved in a wider range of economic development activities in their respective localities. The company led basis of these agencies, along with a general shift by local authorities to work in partnership with the private sector has seen the rejection of more politically contentious issues, such as conversion which is commonly associated with the left.

Two further factors have also influenced the nature of responses. Many local authorities and development agencies have as main objective the creation or retention of as many jobs as possible in their areas. Less consideration is given to quality of jobs (pay, conditions, sub-contracting etc.) and some authorities are happy enough to poach jobs from other localities or at least to benefit from plant rationalisation. Another emerging attitude of the 1980s has also seen the support of general regeneration, often couched in terms of property development rather than industrial regeneration (DABINETT, 1991). The impact of this approach has been to see defence companies attempting to capitalise on land and property holdings during the 1980s property boom (AZTEC, 1992).

Local authority support for defence readjustment has focused on a networking role supporting lobbying activities and an enabling role in implementing local economic development measures. These responses have been fragmented and reactive (DABINETT, 1992). Most activity has been restricted to research and campaigning. Approaches have fócused on the individual factory or base, the locality or the wider national and European scales. Research has most commonly taken the form of dependency or impact studies (Bristol CC, 1988, Fife RC, 1991, Oxfordshire CC, 1992), which have sought to illustrate the extent of local involvement in the defence sector, in particular through chains of suppliers and sub-contractors. Such studies have often formed the basis for organising seminars or conferences to discuss the scope for local responses, and in some cases to act as a facilitator to set up local forums or new institutional partnerships.

The current financial limits on local authorities restrict their direct involvement but EC funds have been used, such as the PERIFRA programme in Lancashire, Barrow-in-Furness, Wirral and Strathclyde. The provision of sites and premises is one of the most traditional activities pursued by local authorities, and this has led to the development of defence sector related technology parks and innovation centres in Preston and Chorley, Lancashire and proposals for an Ocean Technology Centre in Barrow-in-Furness. The land use planning role of Councils can also play a part in ensuring the appropriate re-use of land released by companies and the Ministry of Defence, and in tackling housing issues arising out of base closure and military personnel returning from overseas (DUNGDALE, 1993; JOHNSTON, 1993). One area of enormous importance is support for those losing their jobs. Whilst local authorities have attempted to address the needs of the unemployed and provide training, these activities are increasingly undertaken jointly with, or solely by the Training and Enterprise Councils and Local Enterprise Companies or individual companies and Ministry of Defence (ROE, 1992).

The initial growth of local authority interest in conversion campaigning in the mid-1980s led to attempts to establish national initiatives. In 1987 a Local Authority Working Group under the sponsorship of Sheffield City Council considered proposals to set up a National Diversification Unit (LOVERING, 1989). However, by 1990 these attempts were effectively aborted. The political mantle, so crucial to securing support for such ideas, was then taken on by the Association of Nuclear Free Local Authorities which established an Arms Conversion Project and in 1993 were intending to appoint a development worker to promote the concept of local government led conversion policies (FYFE, 1992; NFLA, 1990). The main local authority associations also attempted to co-ordinate a response to defence sector restructuring. This activity led to a campaign to secure additional European Commission funding (ACC et al., 1992) and the appointment of a professional firm of Parliamentary and EC lobbyists to campaign for a more pro-active policy to deal with the local impacts of defence cuts. This latter approach appears to enhance the competitive advantage of each locality, rather than to secure some general policy related to a review of defence policy or a national arms conversion strategy. The UK approach, in this respect, contrasts with the experience in the USA where Federal legislation and expenditure has prompted state conversion and readjustment programmes (US Congress, 1992).

5. CONCLUDING REMARKS

Drawing up planned responses and setting in place industrial and regional interventionist measures to deal with the consequences of large scale redundancies have not been approaches adopted by the UK Conservative Government in the 1980s. Many of these changes have been triggered or directly caused by Governments' own policies to establish a liberalised and free market economy in the UK. Consequently, the effectiveness of any responses to the changes in the defence sector have had to rely on the success of general economic principles (DUNNE and SMITH, 1993) and fragmented initiatives from specific localities. Without any national strategy it might be argued these responses are likely to be competitive and inefficient. Whilst a clear opportunity has arisen for localities to play a role in economic readjustment, can such local responses exercise any effective control over the future direction of the readjustment process? Such a debate has to extend beyond the extent to which local economic initiatives can deliver new employment, to the role that local strategies might play in the changing nature of the military-industrial complex, in promoting the role of defence conversion, and in the identification and allocation of a Peace Dividend.

Whilst arguments can be made that the nature of the military-industrial complex has changed, the concept still encompasses the special relationship or coalition of interests between the state and defence companies. During the 1980s the UK Government has argued for a strong European defence industry whose efficiency and competitiveness was to be ensured through the application of free trade and market forces rather than previous protectionist and sector specific policies. This does not curtail the Government actively pursuing and supporting overseas armaments sales. The implication of this policy would see the evolution of a smaller defence sector, with more foreign ownership and joint ventures, for example Westland Helicopters, and the behaviour of the sector reflecting general industrial trends (DUNNE and SMITH, 1993). Such a view is naive in some respects, since major equipment orders, placed by Government can still heavily influence long term investment and business strategies. Any locality-based policy would therefore have to consider what shape the future defence sector should take, and examine the consequences of different markets, sub-contracting and ownership relationships. Any local strategy would have to address the restructuring of the arms industry in a wider sense, as it moves towards more high technology orientated fields on a global scale (IKEGAMI-ANDERSSON, 1992). Whilst the lack of responses at the national scale provide opportunity for localities to determine the nature of readjustment policies in their area, the process of change is increasingly determined by global debates. However, if as LOVERING, (1993) claims, Thatcherism was less an attack on the military industrial complex than on workers and communities which had to rely on this industry, then the contribution of bottom-up policy responses still raises important political and social arguments.

Central to such questions is the feasibility and scope for conversion. This objective is often taken on by those who are seeking more radical industrial policies and more interventionist regional and technology policies. Such alternative scenarios do not always encompass specific locality roles. Obviously, the few examples and more wider conceptual approaches to plant and community conversion (SOUTHWOOD, 1991) challenge the top down bias of prevalent policy formulation. Whilst converting skills and facilities to civilian work is a legitimate objective, it is also primarily a long term social and economic goal. It can be a very costly and difficult process and to be effective requires a clear economic framework of incentives and restrictions within an overall strategy or plan. This concept goes well beyond current disparate initiatives and Labour Party proposals for a Defence Diversification agency (QUIGLEY, 1991). Such a process has already begun in the USA with attempts to utilise the military electronics industry in California to launch a new electric-based transport industry. The barriers in the UK appear to be the lack of Central Government commitment and the prevailing culture in some companies.

The arguments emerging from the above analysis indicate a reallocation of resources if readjustment is to be managed and some form of effective transition effected. Currently resources and industrial capacity appear to be discarded. If longer term and new industrial development patterns will engage and re-cycle this capacity (such as the Japanese investment in the car industry) is unknown. The need for money to be spent on the readjustment process does not necessarily mean direct subsidies to the defence industry. The 'Peace Dividend' is clearly a political opportunity connected directly to the central role of allocating public expenditure more widely (KIRBY, and HOOPER, 1991; THEE, 1990). During the last decade the scope for localities to raise local taxation has been curtailed as a proportion of overall income. Any reallocation of public funds is very much in the control of the centrally controlled public expenditure process.

Localities are tied into disparate and desperate attempts to retain and create jobs. There will be successes, but this will have more to do with the institutional capacity and political will that has developed in some areas. Generally it would appear that the defence sector will be smaller and localities will have even less scope to control their economic futures. The ideological determination to secure macro-economic conditions for free trade and liberalised markets has also appeared to have caused, or some would argue been based on, the removal of effective political discourse. In the defence sector, wider industrial and political agendas have been ignored or avoided to sustain private sector led, company based and non-controversial measures. Defence diversification has become encompassed within routinised and traditional local economic development measures. If this is more a testament to the success of local strategies than to the failure of national policies is open to debate.

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