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The governance of local economies
A French case study

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Introduction

The paper comes out of a research project on the Changing governance of local industrial systems in Europe, coordinated by Colin Crouch (European University Institute, Florence and Univ of Oxford), Patrick Le Galès (CNRS/CEVIPOF/Sciences Po Paris), Carlo Trigilia (University of Florence), Helmut Voelzkow (Max Planck Cologne at that time).

Apologies : the bibliography is not complete

The aim of this project on local productive systems in Europe was to analyse the form and role of locally embedded manufacturing activities in contemporary Europe. Is the role of local productive systems (LPSs) based on SMEs rising or declining? Are there ideal-typical models of LPSs that cut across national economies? How are local economies changing through Europe?

This first section of the paper is the result of our joined effort and presents the rationale of our research project and some results of the first phase (ie a first book). The second section presents one French case study which will be used for our second book. The second section sometimes implicitly used some of the finding of the first book, including my chapter on “Betwen large firms and marginal local economies : the making of systems of local governance in France” which I am happy to provide as a background paper.

I Local industrial systems, local collective competition goods, modes of governance of local industrial systems

In order to avoid the “locality” trap, we first reviewed changes over time of local industrial system in Britain, France, Germany and Italy. Our main hypothesis was that local collective competition goods for SME’s and the modes of local governance of the economies are the key to explain the successes of local economies is not a new one. It is the lowest common denominator of the literature of recent decades, the search for what Doeringer and Topakian (1987) have called the ‘invisible factors of economic development’.

The results of the first part of the research were published in

- Crouch, C., Le Galès, P., Trigilia, C., Voeltzkow, H., *Local systems in Europe, rise or demise ?* Oxford, Oxford University Press, 2001

In that book, we gave an account of ‘local production systems’ in the four largest western European countries. We used this term to designate types of economic activity concentrated on geographical localities, usually individual cities or local labour markets (travel to work areas). We were particularly interested in systems of specialized manufacturing, and in those dominated by small and medium-sized enterprises (SMEs), that is in ‘industrial districts’. However, we recognized that these constitute only a subset of local production systems in general. Indeed, the ‘company town’, dependent on a single giant firm or small number of such firms constitutes the most easily recognizable form of specialized local economy. And by the end of our research we were able to see the role of such large firms in sometimes sustaining networks of SMEs. But our interest was turned towards smaller firms because of the important distinction which needs to be made between mere local economic growth and local economic development.

A high rate of economic growth in an area signifies only that the area is experiencing good income returns on its economic inputs; it says nothing about the spread of autonomous and endogenous entrepreneurial and innovative capacities within the area. For a particular locality a problem with the large-firm model of growth is that key innovative managerial and technical skills may be retained in the headquarters and other key plants of the enterprise, so that if the firm closes its branch in a particular peripheral area it may leave behind little of these skills as a legacy to the local community. There have been major examples of this, in cities dominated by obsolescent large manufacturing corporations, or in unsuccessful attempts to stimulate growth through the establishment of large production plants in an area (the so-called ‘castles in the desert’). After such firms go, little is left behind. Where autonomous SMEs develop, however, the theory suggests that they spread a culture of endogenous skills that may survive the departure or collapse of some of them. Fundamental for this project therefore has been the hypothesis that there are viable alternative forms of manufacturing in advanced societies beyond the model of large firms and classic cases of vertical integration.

In order to develop and prosper, firms need to use all sorts of goods and services that are provided in different ways, from knowledge about foreign markets to specialized skills. A central problem for small or even medium-sized firms in an advanced economy is that, whereas large corporations

can provide many of these goods in-house for themselves, smaller firms must either buy them on the market, where transaction costs are likely to make them more expensive than in the large-firm case. They often lack the specific resources that would enable them to cash in on their potential advantages within the competitive marketplace - flexibility, creativity, the high motivation of both management and workers, links with innovative firms and markets, etc - and can be pushed out by large firms. They may lack, for example, specialized know-how regarding the introduction of new technologies; or they may need information regarding current developments on sales or procurement markets; or they may be too small to afford the costs of setting up a differentiated marketing system. Many small and medium-sized firms (SMEs) solve these problems by clustering geographically, and finding means whereby these facilitative goods and services can be made available on a more or less non-market basis within the locality. We call these *local collective competition goods*. Within such a network, internal co-operation secures firms' external competitiveness.

Networked forms of production make firms more dependent on the local environment in which they are located. Therefore, local contexts became important as providers of rich external economies. In particular one can distinguish between two basic kinds of such economies: intangible and tangible. The former have to do with cognitive and normative resources, such as tacit knowledge, specialized languages and conventions, and trust. The second include infrastructure and services.

Provision of such goods on a more or less non-competitive basis among firms otherwise engaged in product competition will rarely be maintained by chance and happenstance. If they are provided without cost, who has an incentive to supply them and to maintain their quality? And who can control access to them, so that the beneficiaries remain the intended ones? It is at this point that our analysis finds an important use for the idea of 'governance', understood to mean 'the entirety of institutions which co-ordinate or regulate action or transaction among (economic) subjects within an (economic) system' (Le Galès and Voelzkow 2001: 6). To take our analysis of local production systems further, we therefore drew on the so-called 'governance approach'. 'Governance' refers to the entirety of institutions which co-ordinate or regulate action or transaction among (economic) subjects within an (economic) system (Streeck and Schmitter 1985; Hollingsworth, Schmitter and Streeck 1994; Boyer and Hollingsworth 1997). The concept was originally developed for application within comparative social research because it considers a wider range of forms of regulation than the familiar dualism of the state and the market. It is also more varied than the

transaction-cost theory of Williamson (1975, 1985), which typically positions economic institutions on a range between markets and (business) hierarchies only. It is especially well suited for making the specific qualities of the structure and development of modern societies recognizable in their respective national economies.

The approach can also be used for analysing the internal functioning of local economies. It assumes that every modern society contains specific combinations of modes of regulation. In order to be able to identify such combinations of patterns of social order, research following the governance approach selects from various models of social order (ideal types) which are then recognizable in real contexts in a more or less definite form or in particular combinations. The attempt is then made to find the best fit between the empirical cases and the ideal-typical models of social order, in the knowledge that this requires radical analytical simplifications.

Five ideal-typical models of governance have been identified (Hollingsworth and Boyer 1997: 9): the market, the (business) organization, the state, the community, and the association. Accordingly, a distinction can be made between competition (the market), hierarchy (the business organization), coercion on the basis of a monopoly of the use of physical violence (the state), solidarity (the community) and negotiation (the association). Decisive for distinguishing among the models is the motivation that pushes actors to take up relations with other actors.

By no means all collective competition goods of this kind are local: national governments and other institutions may well provide them across their territories as part of their actions to guarantee the competitiveness of the national economy. In fact, some of the collective goods we identified in our study, particularly in Germany, were nationally produced, though locally delivered. Some policies of the European Union (for example, rules for product standardization) are designed to provide competitive advantages for all firms in a given sector across the whole of western Europe. Such phenomena are relevant to our approach if means exist for 'capturing' them to the advantage of firms and other institutions in specific localities, and excluding access to them by outsiders.

We therefore hypothesized that, wherever a distinct local production system could be observed, it would be possible to identify the collective competition goods that were sustaining it, and the governance mechanisms which in turn held these in place. We assumed that LPSs grow and reproduce themselves over time by relying upon external economies.

These, in turn, are based on LCCGs – the production of tangible and intangible collective goods - that create particular advantages for single firms localised in the LPSs.

We tried also to submit the idea of governance institutions and in particular of variation among forms of governance, to more abstract analysis, by reducing them to three main variables, each of which offered contrasting approaches. These were endogeneity versus exogeneity (relating to where the rules of governance were made), procedure versus substance (indicating their type of content), and informality versus formality (their means of implementation) (Crouch and Trigilia 2001: 224). An ideal typical district based on a network of SMEs would be endogenous to the locality, would involve substantive rather than procedural forms of co-operation (for example, over actual production or training), and would include high levels of informal exchanges not requiring embodiment into formal contracts. Other forms of governance would diverge from this model in a variety of ways, not necessarily contrasting on all dimensions.

The main aim of our study was to delineate national patterns of local production system, and in particular those involving SMEs, in France, Germany, Italy and the United Kingdom. In developing both our arguments and our evidence we were able to draw on a rich line of existing work, though no previous authors had tried to designate national systems, the focus of most work being on case studies. We were also able to challenge some findings of these earlier studies. Some literature tended to romanticize Italian industrial districts, exaggerating the degree of unselfish co-operation to be found among their firms. There has also been a tendency to misinterpret institutions in Baden-Württemberg, seeing them as both distinctive within Germany, and as similar to those in Italian districts (Herrigel 1996).

On the other hand, several observers during the 1990s had pointed to the limitations, and thus predicted the demise, of highly embedded systems of the industrial district kind. While embeddedness in wider social relations was a key strength of firms in districts, enabling them to call on the resources of a wider community in ways which did not incur production costs, costs of a different kind were incurred: embeddedness would prevent or make more difficult a search for ideas and resources for innovation and change that could not be provided from within the community. In particular, firms in industrial districts might remain trapped in declining sectors because none of the resources in which they were embedded could assist them in finding totally new activities. Neo-classical economists could further argue that the benefits of collective goods

are always misleading, because such embedded firms will have less incentive to respond to respond to radical change than firms more exposed to market signals. (However, this argument assumes that market-exposed firms are in possession of perfect information concerning the kinds of adaptation that they need to make, though neo-classical theory does not specify how they are to have access to such information. Local production system theory, in contrast, is very much concerned with issues of information access.) Overall, it might be argued that embeddedness would be useful in a vibrant sector where endogenous resources could be a source of vitality; but a burden in a static or declining one which had exhausted the current stock of endogenous ideas. Other critics argued that local systems of SMEs would lose their advantages as large corporations overcame their earlier incapacity for flexible specialization and restructured themselves internally to resemble a group of SMEs (Harrison 1994).

We found that SMEs and local production systems based on them had been able to ‘fight back’ and avoid the predictions made of their demise, though this often took the form of becoming part of localized supplier hierarchies grouped around one large enterprise - we described this as a change from the ‘network of firms’ to the ‘networked firm’ (Burroni and Trigilia chapter on Italy in the first book). This type of system, signs of which were to be seen in each country, represents a kind of synthesis between the earlier SME district model and the giant firm challenge. While it preserved the identity and some of the autonomy of the smaller firms, it was not without risk of draining localities of their entrepreneurial and other resources. The corporate hierarchy form of governance has clearly becoming increasingly important, though it often shares place with other forms, in different patterns in the different countries, or sometimes sectors.

This rise of the corporate hierarchy supplier chain needs to be distinguished from the other general prediction usually made during the 1980s and 1990s of the growing importance of the market against other governance forms as part of the general rise of neo-liberalism. Because corporate hierarchy, like the market, is a form of governance that tends to exclude actors other than corporate managers - in particular, governments at all levels and trade unions - there is a tendency in some literature to fail to distinguish between them. This is erroneous. The governance mechanism of the market comprises anonymous, perfectly competitive markets where no firms have a capacity to shape prices and contract relations except through pure competition, within a context of institutions for maintaining the strictness of these rules. Corporate hierarchy becomes important precisely at the point where some large firms are able to escape the severity of the pure market. They become sufficiently large to be price makers and not just price takers; they can shape

contracts through the exercise of authority over subordinates rather than through a pure bargain; and they can develop long-term relations with suppliers which may be able to withstand short-term market fluctuations.

Interpreted in the terms of our analysis of governance mechanisms, both the market and the corporate hierarchy are exogenous to particular localities, and here they both contrast with the community regulation of the classic industrial district. But the corporate hierarchy, like community regulation, operates through substantive rather than the purely procedural rules of the market, and is implemented through informal as well as formal means.

We assessed that local production systems of SMEs continue to be important in manufacturing industry, in all our countries. They are not declining, but rather on the rise, although (a) their weight is variable (some countries like Italy, or Germany seem to rely more on LPSs than Britain and France); (b) only in some cases they take the well known form of “industrial districts”. “Networked firms” and “empirical agglomerations” of SMEs seem more on the rise. In addition, we assessed that: (c) new LPSs based on high tech activities are developing, with a significant role of SMEs. They are usually closer to the industrial district model; (d) there is a relationship between models of local systems (industrial districts, networked firms, empirical agglomerations of SMEs), kinds of LCCGs that are important in each model, and modes of governance that regulate production and delivery of such goods; (e) therefore, local systems based on SMEs show patterns of organisation and governance that cut across national economies. National systems seem to influence the overall diffusion of LPSs based on SMEs (higher in Italy and Germany) and the model that prevail in each country (industrial districts and networked firms in Italy, networked firms in Germany, empirical agglomerations in Britain, empirical agglomerations and networked firms in France).

Research Project part II : 12 comparable case studies, localities and sectors

Our analyses had been conducted at the level of the manufacturing sectors of whole economies, leading us to seek comparison and contrast at the level of the nation state. It was possible to give only small attention to differences among different sectors, either within or regardless of an overall national governance regime. Given the complexity of patterns found, it was clear that further

analysis would require more focussed attention on detail. While we had gained an important perspective in comparison with the predominantly case-study oriented approach of most literature on this subject by examining entire national contexts, we now needed to return to the more typical approach, armed with our new insights.

Since the number of identifiable sectors in a modern economy is very large, it was not possible in a single study to consider more than a small selection. We selected our cases, not in order to achieve some representativeness of the economy, but in order to follow the development of the literature on the subject of local production systems, since our concern is still to evaluate contrasting accounts made of the viability of different forms of such systems.

First had come the pessimism following the recession of the early 1990s, the general mood of ‘The corporate giants strike back’, as the Anglo-American model of giant conglomerates seemed to be able to imitate anything small firms could do, and considerably more. Alternatively, production in a sector was seen as more profitably conducted in lower-cost countries than those of western Europe. Those SMEs remaining in a sector in the face of these challenges would have to be those trapped by their embeddedness in declining profitability and incapacity to adapt. Such a perspective was strengthened by the apparent decline of the industries and/or geographical areas which originally stimulated the industrial district literature: textiles, clothing, machinery; the districts of central Italy, especially in the towns around Bologna and Modena in Emilia-Romagna; the different but not dissimilar concentrations in the German machinery industry, most prominently around Stuttgart in Baden-Württemberg. Many of these concentrations are seen to have peaked around the end of the 1980s and to have moved into either terminal decline or a major crisis of the prevailing model since the early 1990s.

Second, however, and in contrast, even as these districts were thought to be in serious trouble, the idea of local economic specialisms based on SMEs was becoming attractive to policy-makers in the European Commission, and national and local levels of government keen to point out new futures to areas caught in a different kind of decline: the clearly terminal collapse of old, Fordist manufacturing industries based on giant firms. The initial response within most countries (and the Commission itself) during the 1980s to the crisis of over-production in a sector like the steel industry was one of modernization, slimming down, and then up-grading of the industry itself, the so-called ‘first reconversion’. By the 1990s it had proved impossible to save mass steel production in western Europe (and other parts of the advanced industrial world) under new conditions of

global competition - at least as a major employer of labour. It was therefore recommended to ex-steel cities that they diversify their economies, and in particular that they try to move away from dependence on a very small number of large firms but stimulate endogenous local entrepreneurship. This often meant trying to adopt the industrial district pattern rather than relying on large-scale external investment. In these cases, existing embeddedness was within the old, large-firm system. Creating new SME clusters would involve trying to generate new, innovative contexts which were not (or not yet) embedded. But how would local political and economic elites embedded in the old system be able to do this?

Finally, stereotypes that industrial districts were essentially limited to traditional, *artigiano* products (clothes, shoes, jewellery, food, specialised machines) were confronted by evidence that, in Europe, the USA and the Far East alike, several particularly new, high-technology sectors seemed to take a similar form to the industrial district: geographical clustering of large numbers of SMEs, possibly surrounding some larger core enterprises. This was the case for biotechnology, the media industry, computer software and other aspects of information technology. These would be cases of newly established, vibrant embeddedness that were still far from exhausting the collective competition goods of their local environment.

These diverse experiences of the local production system model suggest that different fates might await it in different types of sector and in different stages in the history of sectors. In other words, the local cluster form will not be able to ensure success if the sector is in decline, but it may be used by successful firms in new, rising sectors. These possibilities can be examined in particular by comparing the machinery and high-tech cases.

The former steel cities raise a different question. Unlike areas in which the machinery industries were concentrated, steel cities were not characterized by SMEs; very much the reverse. At stake here, therefore, is not the capacity of SMEs to 'save the steel sector', but to provide a basis for new ventures in new sectors, and of course not necessarily in manufacturing. This immediately presents a puzzle. If central to the industrial district model is its endogeneity, can it be introduced by exogenous actors, in particular one as external to a locality as the institutions of the EU, frequently the main inspirer of such policies? What kinds of new sectors of economic activity emerged from such attempts? And how successful have they been?

There is then a final set of questions necessarily raised by our approach. How, by the early 21st century, did the local production system model fare in each of these very different contexts? Are there common patterns, among both the different industries and different national situations? Or have firms in the three different cases gone very different ways? We address these issues through twelve case studies - four national examples in each of the three contexts. Comparison is therefore along two axes: between economic sectors and between countries. The latter is not seen as either a consistent or the major source of diversity; there is no *a priori* expectation that we shall find consonant national patterns across the three sectors. Also, our interest is not concentrated on learning whether this or that 'national system' performed better than another, but to gather evidence of the diversity of patterns which may be emerging.

In terms of method, in each case, we did two different surveys

- 1) on firms (either questionnaire or interviews) about their use of local collective competition good
- 2) on local, regional, national agencies producing those goods (interviews).

The paper presents the results of the case study in the case of a steel city in crisis, St Etienne in France

II Life after the industrial decline in Saint-Etienne

Robust SME's, deterritorialisation and the making of a local mode of governance of the mechanics sector

St-Etienne is a case of industrial decline of a steel city (with coal and textile) which benefited from public support as early as the 1960's.

I showed in the first book that industrial and research policy in France, once integrated within what was called the "Colbertist state" had been profoundly restructured since the mid 1980's (Cohen, 1989, Anniello, Le Galès, 2001, Mustar, Larédo, 2002). Local and regional actors in particular, both from the private and the public sector, were given much more freedom and resources to develop programmes and initiatives. I brought forward argument and evidence to show the making of diverse modes of governance of local economies in France, in some places. The same question applies to Saint Etienne.

The local economy was transformed by the rise of tertiary sector jobs in both the public and the private sector and by the persistence of the local industrial tradition nowadays organised by SME's. Before focussing on the production of collective competition goods by various agencies, the chapter is based upon the ways in which industrial SME's use those goods. This angle proves fruitful to show the fragmentation of the local economy, trends of de-territorialisation in terms of market ownership. By contrast it also brings to light the persistence, even the strengthening of the use of local collective competition goods. This ambiguous, sometimes contradictory results are first set in historical perspective before a detailed analysis based in section upon a survey of firms and finally a survey of local agencies. St Etienne economic leaders have now given up the idea of a major revival related to large firms. There are now trying to organise and represent themselves as a mechanics industrial urban area, possibly an industrial districts as the latest sign to paint in new colours the tissue of robust surviving, and sometimes successful industrial SME's.

II-I The rise and fall of the industrial development

Saint Etienne was the French working class city, the main industrial town which rose to prominence during the XIXth century when it became the 10th biggest city in France, i.e. the French version, to a smaller extent of the northern England or Ruhr industrial cities. Later, it had to face similar large scale social problems, overcrowded housing, unemployed working class. It did not look like a French city but rather like an accumulation of industrial firms, cheap overcrowded housing, both within the centre and in the neighbouring industrial valleys of Ondaine and Giers. Its local bourgeoisie was historically weak and played a minor role in the organisation of the city, education or housing¹. By contrast, St Etienne working class was close to the proud militant and anarchic tradition. Twinned with Coventry in the West Midlands, St-Etienne enjoyed similar industrial growth over the XXth century before the severe industrial restructuring from the 1960's and 1970's, not far away from the country's second city, i.e. Lyon which monopolises all the tertiary sector functions, as did Birmingham for Coventry. In The 1960's, the other city of the region, i.e. Grenoble, became the symbol of modernist economic development based upon close links organised between decentralised research centres, the university, the city, a few large firms

¹ There are exceptions to that, a few industrial leaders took initiatives to improve the lives of the workers in housing for instance, but that remains limited in comparison with what happened in Lille urban area for instance

and networks of high tech SME's employing technical well trained middle classes far away from St Etienne .

Because of early support from the state, and despite sharp economic decline, St Etienne did not face major demographic decline, just a slow decrease in the number of inhabitants in sharp contrast with dynamic cities in the rest of the country. The population aged without leaving –only the young people left- but St Etienne did not attract many new inhabitants despite the dynamism of the Rhône-Alpes region within which it is set.

St Etienne economy was based upon three industries : coal, steel and textile. Coal declined first but steel (and textile) remained the main industries until the 1980's. Beyond steel, other industries emerged such as metal transformation, machine tool, guns. Saint Etienne was renowned for its skilled labour force, its working class culture, its industrial tradition related to quality, its identity...and in the 1970's, all this crystallised in support of a glorious football team.

Saint Etienne was a typical industrial urban area structured by large firms. They organised networks of subcontractors within hierarchical relations and they were integrated within large French industrial groups. Until the mid 1970's, the economy of the St Etienne urban area was relatively integrated around those ten firms or so (such as Les Houillères, Rhône-Poulenc, Péchiney, la Manufacture d'Armes de Saint Etienne-Manufrance-, or the steel group Creusot-Loire – 10.000 workers in the 1970's, then went bankrupt). They were closely integrated with the French state industrial complex and for some the military-industrial complex. Collective goods were produced by large firms and local subcontractors for the benefit of the hierarchical industrial system. Local subcontractors were close to the artisan tradition. Large firms were in charge of the marketing and commercial side, they organised research and development and were in charge of training of the labour force. The pattern was quite clear as those large firms structured a dense network of subcontractors in a hierarchical way. By contrast to other areas, and although the subcontractors were dependent upon those large firms, this networks of firms allowed for local collective goods to be produced mainly by those large firms : training, workforce mobility, and research to a more limited extent².

That came to an end during the 1970's. The decline or failures of large firms led to the restructuring or the collapse of the whole system. In particular, large firms restructuring led them

² On the traditionnal economy of St Etienne and its restructuring, the CRESAL, a research centre at the University of St Etienne, has done several research over time (see in bibliography), in particular de Banville and Venin.

to give up their close links with local subcontractors and to develop links outside Saint Etienne, often as a minor partner.

The story of the industrial collapse in St Etienne is well-known (De Banville, Vérilhac, 1983). Let's just remind firstly that the closure of the coal sector cost St Etienne 25.000 jobs in the 1950's and 1960's. Secondly, 25.000 industrial jobs (out of 55.000) disappeared between 1975 and 1990, and again 9.000 between 1990-1994. Meanwhile all the leading industrial firms vanished from the area. Until the late 1970's, the industrial was partly compensated by the rise of small firms in the building trade and the engineering sector, the resistance or development of SME's in metalwork and mechanics, and the increase of public and private jobs in the tertiary sector but that was far from sufficient.

After the collapse of the large industry and the firm Manufrance in particular³, several points were identified as problems for the urban area and the local economy :

- The environment of a "black" industrial city which had known anarchic development
- The disorganised local economy, orphan from the large firms
- Labour force skills. Although Saint Etienne workers had a high reputation for their know how, that seemed to go rapidly in front of technological changes of the 1970's and 1980's. Lack of training, skilled labour, technicians, training in technologies were identified as crucial missing collective competition goods.
- Politics and social conflicts were also part of the picture. The economic restructuring went hand to hand with severe social and political conflicts. The centrist Mayor (1971-1977) was under constant attack. His Communist successor (1977-1983) tried to promote St Etienne at the forefront of the struggle against the closure of firms. The struggle to keep the symbolic Manufrance firm with public funds and the support of the trade unions, and its eventual collapse, signalled the end of an era. The following mayor was again a pale centrist political figure at a time when in 1977 and 1983 a new generation of Socialist mayors and to some extent right wing were able to take full advantage of decentralisation reforms
- The city was both an industrial centre and the largest city in France without a booming tertiary sector in the 1980's, mostly because Lyon, the regional capital and Grenoble benefited from that dynamism.

³ Manufrance was a symbol of St Etienne (Kukawka, 1980), after its first severe problems, both communist led council and the communist trade union took power and supported it. Political pressure after 1981 led to further state aid until the final collapse. Manufrance is one of the case criticised by Cohen in « the stretch bearer state » l'Etat Brancardier, 1989

- The image of the industrial city was identified as a major weakness. Both during the 1980's and 1990's, Saint Etienne lost inhabitants, an exception comparing to the continuous dynamism of cities in France.
- The local economy seemed to be lacking dynamism, entrepreneurship, high tech developments, leading large firms, new investments.

Under those circumstances, St Etienne benefited from large scale political support expressed in terms of funds channelled to the area. A priori it would make sense to start by presenting all the initiatives which led to the production of competition collective goods and beyond, to the restructuring of the city and to the revival of the local economy. However, our survey about firms rather leads to the opposite conclusion, i.e. that firms managed on their own without using the competition collective goods produced by public agencies at the local level. That conclusion will be discussed in conclusion.

II-2 Recent economic development in St-Etienne : slow rise of services and the dynamism of a variety of industrial SME's.

Despite the tough times, the urban area did not collapse. The section aims at presenting the main characteristics of the restructured St Etienne economy. As always, the question of boundaries is not easy both for geographical and political reasons.

In demographic terms, St-Etienne urban area is ranked 25th in France. By contrast to most urban areas which went through sustained growth over the past two decades, St Etienne urban area has declined but not too a large extent. For instance for the period 1990-1999 where the rise of provincial urban areas has been very strong, St Etienne lost 21 536 inhabitants, it has now 321 703 inhabitants (1999 census, Insee).

In economic terms, St Etienne usually means, the St Etienne travel to work area, comprising most of the two neighbouring industrial valleys, Ondaine and Giers. Often statistics include the south within the category “Loire sud” – a large travel to work area- , ie including Montbrison and St Chamond which are closer to Lyon and benefiting from a different dynamics. The municipality of St Etienne as such represents about a third of the firms in the area.

Map 1 : The St Etienne region

Scan, in “L’économie de l’arrondissement de St Etienne Montbrison, p.4)

Table 1 : Employment and firms in St-Etienne/Loire Sud by sectors

	Industry	Building	Tertiary sector
Number of firms	2559	1668	11704
Number of jobs	52 108	11264	86 264
%	34,8%	7,6%	57,6%

CCI St-Etienne Montbrison (2001), ASSEDIC figures 1999

Table 2 : Emplois salariés, St-Etienne/loire sud, trend

1980 : 148 790

1985 : 132 093

1990 : 144 524

1999 : 149 700

ibid.

Table 3 : a diversity of firms size

Size of firms	Number of firms	Number of jobs
1-4	10 432	19 814
5 -9	2 799	18 586
10-19	1 327	17 829
20-49	551	29 348
59-99	279	19 348
100-199	111	15 472
200-499	66	18 472
More than 500	12	10 814

Source, Atlas de l’économie de Loire sud, 2002,

Table 4 : main industries in St Etienne/Loire sud, 2001

	Number of firms	Employment
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Food processing	796	5755
Textile	174	4918
Clothes making	76	1960
Leather, shoes, wood	40	640
Paper	24	616
Printing publishing	190	1989
Chemicals	22	1222
Plastics	60	1755
Minerals	89	2079
Steel, metal	26	1690
Metalwork	724	12 073
Machine tool, equipments	249	5673
Electric machine making	63	2553
Medical, optical instruments	108	1603
Furniture	174	1596
Energy	19	112

CCI St-Etienne-Montrbrison (2002)

A first point to underline is of course that although St Etienne is no regional capital, it is still a French city therefore benefiting from a relatively high level of public services, that translates in terms of jobs. Although the growth of public sector jobs has not been as high as expected, it remains a solid pillar of the local economy with several thousands of jobs in the hospital, the school systems, the university, the local council or public services, the training school for managers in the social security system. They are also linked to private sector services. For instance there about 14.000 jobs for instance in health and social services and about 15.000 in sport, education, culture.

Services to firms and commerce have also been rising beyond the existence of the headquarters of the Casino group (although its ownership has changed in association with the Guichard family) including in tourism or communication. Services to firms have been on the rise in particular because many have externalised some work in particular transport and logistics on the one hand, cleaning, surveillance and interim work on the other. Although the figures are not spectacular, the rise of services to firms, including on the upper hand of the market is quite regular. In the early 1980's, the world of services accounted for about 40% of the jobs, about 60% nowadays because of the joined trends of industrial retreat and service growth.

The main characteristics of St-Etienne remains the diversity of a surviving group of industrial SME's, from the most high tech and international to the smallest traditional one. The figures show there is a wide variety of SME's from all size in St Etienne, some may be the remains of externalised branches of the now gone large firm.. In the steel sector, only a handful of steel firms remain, in Firminy or Ondaine Valley, specialised branches usually. Some may be specialised internationalised dynamics SME's such as SNF (chemical products for water treatmentk) or Chambon, world wide known for its crankshafts for Renault or Ferrari, or Thuasne (over 500 employees) which produced specialised medical textile or Desjoyaux (swimming pool). As mentioned, some of them were bought by foreign firms. Some remain smaller, about 50 employees but specialised in one market (car security belts for instance). The evolution of SME's ownership demonstrates constant changes : management buy out, foreign investments, one firm buying its neighbours. The whole industrial tissue is still under ongoing restructuring, including job losses. However, St Etienne is keeping its reputation for industry, it remains a leading industrial urban area in France. By contrast to other industrial area, it is characterised by the density and the variety of its industrial firms.

Within the industrial sector, there is still a large area of not so specialised firms with niche markets, or regional markets, from textile to engineering. There are also two strong areas : metalwork and mechanics...even if both sectors lost a significant share of employment over the years. Firms of these areas used to work for the main local large firms. Some of them were formed from those firms, but most have moved towards forms of upmarket subcontracting, doing most work for the aeronautics, automobile, building large firms. Metalwork creates a wide variety of objects from tubes to springs or electronic metal components, often very specialised. In the mechanics sector, often in relation to metalwork, St Etienne is ranked as the first region in France comprising a myriad of specialised small firms. They need collective competition good to move to new foreign markets and to work with new technologies. By contrast and less expected, there is a rapid increase of firms and jobs in areas such as plastics, chemicals or even electronic and optical components for instance for the telecoms or health related prosthesis.

Despite being for a while supposedly not a very attractive region, ST Etienne has managed to attract an average amount of foreign investment comparing to other French urban areas. Also, it has a noticeable higher rate than the French comparable average for industrial firms creation.

In many respects, the St Etienne urban area has an ambiguous profile : despite the demographic and economic decline, one finds a dense tissue of robust and dynamics SME's and the decline has been less important than might have anticipated. Although services are on the rise, there is no sign that St Etienne is really catching up with other urban areas because of the proximity of Lyon. The question remains : is this a sign of decline being smoothed by the whole range of grants and policy initiatives or is the St Etienne economy gradually being reshaped and reorganised around a network of dynamics SME's ?

II-3 Firms and collective goods : integration within larger groups

The following section is based upon our survey and detailed interviews with 40 firms. Our questionnaire was prepared to understand how firms used collective competition goods⁴ and how relevant that was. Our interviewees were directors of the firms, either the owner and chief executives or one of the director. We then worked with organisations producing those local collective competition goods.

Industrial SME's in St –Etienne : diverse industrial base but a stronghold in mechanics

We chose our sample of firms at random within the list of all industrial SME's within the travel to work area.

The firms we interviewed have the following characteristics.

- Most are rather small SME's, under 100, often under 40 employees, we have not met the growing high tech large SME's we identified in other parts of France. Most are subcontractors : mechanics, textile, specialised products, industrial organisations close to artisans, diversified consumption products.
- Several were bought by the managers after difficulties, in close relation with the workers but a larger number was bought by firms foreign to St Etienne. About a third of the firms we interviewed were old familial firms which managed to stay afloat for instance by buying local competitors but several are in the process of being bought because either of financial problems or inheritance problems. A small number of firms was created by managers of former large firms, which took over segments of their former business.

⁴ We got the list of the industrial SME's in the St Etienne travel to work area (mostly St Etienne, Ondaine Valley, Giers Valley and to a limited extent, Plaine du Forez) and we made a sample to interview one every three firms. When it did not work, we interviewed the following firm on the list. 40 industrial SME's were interviewed.

- Most have dense relations with other firms beyond St Etienne for instance for commercial developments and marketing, and from the St Etienne area for subcontracting work and technical developments
- In the metal work industry and mechanics, machine tools, the local subcontracting and the density of relationship between SME's is particularly important.
- Several SME's tend to remind us of the tough, robust survival industrial SME's that Crouch and Farrell identified in the first volume in the UK. They develop products, improved existing ones, develop ad hoc relationships with external firms, in particular their clients, have their own limited commercial capacity in house, have limited contacts with public agencies. Several hardly have more than regional markets for instance the metal work and mechanics SME's. Rhône-Alpes is the second industrial region in France, including Lyon, Grenoble and the dynamics Alpine industrial systems. St Etienne SME's have contacts and clients all over this region. Among those one find several familial firms who use to be subcontractors for the armament industry for instance in St Etienne and which have gradually found new regional and national clients. They progressively adapted by finding new clients outside the St Etienne area. This autonomy and capacity for entrepreneurship is not limited to independent SME's. Even within regional or international groups, directors of SME's in St Etienne have been asked to develop new products and to find markets beyond the group (case of a foundry). Others, within those groups have development strategy and invest in R and D or develop their own conception capacity to upgrade their products (case of a firm making tubes). When local familial firms expand, they buy other local industrial firms and expand the geographic coverage of their activities.
- Many of the firms we interviewed were blunt subcontractors who progressively try to add value buy developing new products, adding technologies to the production process (micro technology for instance) and to their products, to look for new clients. They are cautious however to operate at a limited scale and to avoid too many risks.
- The long story of lack of decision making power in St Etienne is not halted. Because many industrial SME's were bought by either foreign firms or regional/national groups, the decision making power has been relocated outside St-Etienne. This major feature of St-Etienne economy increases fragmentation and makes collective action difficult.

The characteristics of our sample of firms make sense in relation with what has been argued about the restructuring of St Etienne economy after the collapse of large firms⁵. A first major conclusion derives from the analysis of employment and firms statistics : after the collapse of the large firms, a number of industrial SME's has managed to survive, to develop, to create jobs. St Etienne travel to work area is characterised by a large number of rather small industrial SME's operating within a limited number of sectors which are not always booming : they are not high tech, there are few creations, many are not growing. Beyond this macro analysis, more detailed surveys reveal two chaotic decades for those SME's : many went bankrupt were bought by outside industrial groups or local ones, others close, others merge, others reorganise several times, others were created, some reappeared as smaller part of departing large firms. Life has not been quiet but hectic, unstable, with many reorganisations. Secondly, those SME's massively remain in the industrial sector. De Banville and Venin have long argued that the continuing reinvention of new forms of organisation in St Etienne was always based upon the industrial tradition, types of specialisation⁶. Thirdly, foreign investment has become a norm within St Etienne SME's (an acceleration of an existing trend), several dozen of firms and over 6.000 jobs in the St Etienne urban area. De Banville and Venin note that after the American and Italians investors who started new firms, British and German investors came later to buy existing firms. Interestingly they note that the St Etienne area does not attract leading international firms but rather medium sized transnational groups for instance Alumax, Krupp, Schlumberger, ZF, Ratti, Adwest, Freudenberg (Banville, Venin, 2000). Fourthly, they also note the long term growth of regional industrial groups in electronics, textile or metal work for instance, we already found several ones in our sample. Fifthly, their analysis shows the role of local young well educated men to start new firms, people who previously worked in another local firm, hence their close links with the local economy.

This brief analysis provides the background under which to investigate the ways in which St Etienne SME's use collective competition goods.

⁵ We also use the figures and analysis of the planning and strategic agency, EPURES, INSEE , the CCI documents and reports by development agency in Vallée de l'Ondaine and Vallée du Giers. Within their research centre, CRESAL in ST Etienne, Venin and De Banville have analysed population of firms and their changing configuration over time. We also refer to the work of the other research centre, in the faculty of economics this time, CREUSET

⁶ By contrast, they argued that the more Fordist types of organisation did not « fit » St Etienne and were not successful

Collective competition goods used by St Etienne firms reveal the externalisation, the limited impact of local public agencies and club together with dense ad hoc relations between firms.

During our survey, we asked the firms how did they find and use the following collective competition goods⁷ :

- Information about market and clients, Marketing Exports,
- Technological developments, R and D,
- Finance, Grants.,
- Information and training about new norms, certificates,
- Training, Recruitment

Disentangling the contradictory overviews presented before requires a detailed analysis by types of collective competition goods.

Commercial operations reveal externalisation and independence

Most firms internalize their commercial function, they devote resources to it. Collective organisation is rare. In those rather small SME's, firms directors tend to deal with commercial functions. However, if they are part of a larger group, commercial functions tend to be organised by it or in close association to it.

Not one firm we visited had only a local market but a significant proportion had a robust regional market (ie within the Rhône-Alpes region). At a time when globalisation of markets is supposed to be the norm, it was quite surprising to identify such a bulk of industrial SME's operating mainly at the regional level, both in terms of market, subcontractors and even suppliers (often even more local). In metal work in particular (galvanising metals, or sheet metal manufacture), we had cases of several firms for whom 60 to 80% of the turnover was done within Rhône-Alpes. This is also the case for firms producing specific products such as sport/mountain textile or luggage for marketing people.

In this industrial sector, marketing as such seems to be a rare thing. Most firms tend to develop close connections with clients, suppliers, subcontractors to get information about market trend and to identify new clients. Most importantly, firms directors emphasise the importance of professional exhibition, international fairs, to make their product known, to meet new prospective clients, to get information about market trends. Also most of our interviewees insist on the role of national

⁷ The list derives from the work of our team in the first volume, it was then adapted to St Etienne SME's after the first five interviews. It should also be clear that not all the firms gave detailed answer to all the questions

professional organisations to get information about market trends in their sector. Sometimes, as in the textile industry, professional organisations may have dynamic regional branches (St Etienne is close to Roanne a textile industrial system) and provide competition collective good in the form of organisation of collective trip to foreign market and large international trade fairs. In one or two cases of old familial firm (third generation), the owner and chief executive happened to be a leading member of the CCI. He would refer to the work of the CCI to provide information about clients and organising collective flights to trade fairs too. CCI organises collective travel arrangement to go to the main mechanics exhibition event in Milan or Hanovre.

For the SME's we interviewed, beyond the use of commercial offices for foreign markets, trade fair, exhibition, suppliers exhibitions are the main sources of information. In one or two cases of firms producing basic plastic product, the integration is done under the hierarchical principle and all the production is commercialised by another firm, owning it. One firm makes outdoor dryers to hang out the washing. It went bankrupt and was bought by a French client outside St Etienne which is commercialising the whole production.

We wondered to what extent our firms found clients through information gathered thanks to particular ties on a territorial basis. The answer is not much. About half our interviewees mentioned first information obtained through subcontractors or owner firms. In a few cases, examples of reciprocity, mutual support could be mentioned in textile. One particular case concerns an artificial prosthesis producer firm. In that sector the small number of SME's is resisting the pressure of giant multinational firms hence multiple examples of cooperation between them, but not on a territorial basis. The strength of weak ties remains important but is not central for our SME's. Last but not least, cases of information exchange and precise support to obtain clients on an friendly basis were not always developed within St Etienne but were mentioned as more important within national professional networks or within larger groups.

In terms of gathering information about market trends, clients are overwhelmingly the main source. Professional journals, meetings, fairs, private consultants (selling information about competitors) are also providing important sources of information for our SME's : not much territorialisation going on here either. One interesting case is that of a street candelabra maker, mentioning the intermediating role of architects and designers working for several firms. A swimming pool builder uses detailed data analysis from market research firms.

Several firms are mentioning that export is a new development for them. They are careful but in several cases (mechanics, cleaning products for the industry, textile) exports now represent over 10% of the turnover and there are plans to get these figures rise. Although SME's export has been a policy priority for a number of years, St Etienne industrial SME's seem first to have survived, to develop a different set of relationship with their environment (horizontally within local and regional networks, and within vertical networks) and they now move towards diversification of their markets and clients, including exports. One would assume, but we do not have clear evidence from that that SME's which were integrated within larger firms were among the first to develop exports and that dissemination of ideas and constraints led the other ones to follow.

When they move to new markets, export in particular, SME's either manage on their own by recruiting new people inside or dealing with specialised companies. Many have incremental essay/error strategy with limited investment before moving forward, for instance with private commercial agents specialised on foreign markets in their domain. Alternatively, they use the resources of the larger group to which they belong. Often, the development in new markets is related to the merger, or the acquisition of another firm specialised in that domain. A St-Etienne firm specialised in thin metal sheet for computers bought another one specialised in a different product, a few miles outside St Etienne and then expanded both in terms of products and in geographical terms. By contrast a firm specialised in prosthesis is part of a St-Etienne base familial holding. It expanded in Germany by using the resources within that holding. Again, local networks seem to be of limited use in that case except for the textile firms which are quite specialised (turnover between firms) and one or two cases in the mechanics sector.

Joined marketing for instance, even for firms from the same sector within St-Etienne is the exception rather than the rule. Despite all the efforts from various agencies which are vaguely mentioned in the interviews, commercial independence, vertical networks and market relationship is the rule. There is no such thing as an integration St-Etienne industrial SME's in terms of commercial development or promotion, with the limited exception of mechanics.

R and D, technological development

Here again, the survey gives us mixed results. SME's in St Etienne are mainly subcontractors. By contrast to other competition collective goods, R and D is more dependent upon the co-operation among firms and other partners, hence firms isolation is not the pattern here. However, only one limited part of the R and D and technological project would bring several firms together with

technical or research centres based in St-Etienne. Most SME's either use external sources or alternatively have project by project ad hoc co-operations. Local collective action in that domain remains the exception. Furthermore, investment and use of R and D are an outcome of pressures from clients, for instance in the mechanics or machine tools cases.

Our sample could be divided between the firms belonging to the mechanics sector in the large sense (including metal work and machine tool) and the rest.

For the first group, R and D and technical improvement as a collective competition goods is mainly produced in the day to day interaction between firms, most importantly between the subcontracting firm and its clients, for instance in the case of the machine tool firm working for Peugeot. Although the clients are not large firms anymore, in the metal work, mechanics, machine tools industries, the close co-operation with the clients and subcontractors is seen as a major condition of economic success. SME's directors belonging either to international groups or regional groups emphasise the importance of that point to invest and to stay in St Etienne. In the machine tool case for instance, SME's are engaged on specific project, as one director put it : "Dans notre domaine, ce n'est pas facile d'aller à l'étranger. C'est lié au marché, aux projets, c'est pas facile de travailler dans un pays sans y être implanté". When those firms go foreign, they do it within the larger group to which they belong.

In those firms belonging to the mechanics group, by contrast to what we had found in the machine tool sector, most SME's director emphasise the importance of R and D, of improvement of the production process. Of course, most of them signal the importance of close relationship for the conception, research, production or even design of pieces of metal work or new machines, or specific products for the clients. Although some directors stress the fact that they have to include micro electronics or numerical commands in their equipments, there is a remarkable unanimity in their discourse about the importance of technological improvement and R and D.

Secondly, for firms in that sector, technical centres and the research centres of the engineering and technical schools in St-Etienne, and sometimes in Lyon or Cluses (within Rhône-Alpes region) are major sources of R and D and support do develop innovative projects. The firms from the mechanics sector all mention the work of the CETIM (*Centre technique des industries mécaniques*) created in the mid 1980's on a regional basis. That includes a research centre, an association of firms, consultants, and they work on innovations for firms within the mechanics sector. They also develop relations with university centres and engineering schools. In the case of mechanics firms in St-Etienne, those we interviewed mentioned they had access to general R and D information through CETIM. Several mentioned ad hoc project going one either with CETIM or

with centres of expertise and research centres within the university or the technical and engineering schools (IUT). But there is no such thing as long term integrated collective programmes. These are ad hoc contracts or relations related to specific projects which happen to be very diverse from one firm to the next.

This is particularly important for the mechanics and textile sector where specific technical centres were created to respond to their need for technological modernisation. Although that point is not always emphasised in the interviews, several detailed examples suggest that those technical and research centres created 15 years ago have now penetrated the dense network of traditional industrial SME's in St-Etienne at least in the textile, mechanics, metal work. Thirdly most firm use private sources such as national or often regional consultants and national professional organisations.

As far as research is concerned, most firms have now developed a research and development department, a new development in many cases, an incentive to keep more closely attuned with technological changes even if those SME's are part of a larger group. Again, relationship between subcontractors and clients is the main basis to produce collective competition goods. When those relations have a strong territorial dimension, R and D only reinforces that dynamics. By contrast, when those relations take place mainly on a wider scale, the territorial dimension of R and D production remains limited. We find case of relatively integrated networks in the case of mechanics but also case with very limited integration from a territorial point of view.

For the other firms, the situation is more contrasted because they are not embedded in such a dense network of interfirms relationship. Several firms have their own small scale R and D department (from 1 to 5 employees) working to improve products or invest heavily (in relative terms, considering their size) in new products, for instance in textile. Several firms mention the use of consultants to bring innovation, technical improvements, suggestions about the modernisation of equipments. In some cases, these are just consultants on the market, in several cases, they are linked to local agencies (CCI, DRIRE, ANVAR) and therefore their use is subsidised by local authorities.

In that area, firms directors are well aware of the technical centres, research centres likely to respond to their need and to produce adequate answers. Also, on the financing side, they were able to mention different types of aids for instance for technological upgrading (ANVAR) through local technological networks (Ministry of Industry), or to get the relevant information from the CCI.

Outside the mechanics sector, firms directors rather despise the university and the local R and D facilities. They get grants from local agencies but they either develop R and D inside the firm or use consultants and professional organisations, or they use the R and D produced within a larger group owning them.

In our survey we singled out questions about expensive collective competition goods such as testing new products, simulating their production, making complex estimation...related to the implementation of R and D, before the production stage. The cost related to this make those goods particularly relevant. In our samples, firms mainly use the local and regional expertise and technical centres (CETIM, ITC), research centres related to the university/engineering schools and they use local public grants. About a third of them also use private consultants from the Rhône-Alpes region.

All in all in this domain, firms contribute to the making and use large amount of collective competition goods either in relation to other firms or in relation to specialised technical/expertise public or semi public centres. Most of them also use regional private consultants on a regular basis.

Finance, grants

The firms we interviewed were not always talkative about this. Most firms first use “normal” private banks for their development. However, several firms mentioned that in case of need, they were able to get support either from their owner or from their subcontractors but not systematically on a territorial basis.

Most firms are benefiting from grants. Although they tend to despise them as irrelevant and mocking the weak constraints attached to them, it seems that they are all well aware of at least some of the grants : to hire consultants, to finance expensive equipments, to develop technological innovation, to export new products. The overall importance of those grants is difficult to assess but nearly all the firms we interviewed used some of those grants. Most firm directors are aware of the ERDF financial grant but regret the delay and the heavy administrative procedures. Those financial aids were usually used to expand in new buildings, to finance costly new equipments, to hire new people, to support new investments.

Again, in the financial domain, examples of support among local firms remain the exception such as in the textile where firms gave money to prevent the bankruptcy of vital suppliers, the last ones in France and to avoid dependence upon their Japanese competitors.

Information and advice about new norms, certification

Most industrial SME's are faced, as other firms, with growing demands concerning quality assessment (ISO 9000, ISO 9002), environment, contracts.....SME directors mention they feel the pressure to adapt their organisation to respect those norms. Again, pressure from clients within and more importantly outside St Etienne prove crucial. Beyond classic examples firms have to adapt to the eradication of asbestos from their products or increase the security level of their machines.

For those sort of collective goods, the local environment proves decisive. Nearly all our interviewees mentioned they had contacted either local branches of the state (AFNOR, DRIRE for the ministry of industry) or the environment, or business organisation or the Chamber of Commerce and Industry, or expertise/ technical centres such as CETIM (see below) to adapt smoothly. That process usually requires some sort of training for the management and the workers alike and that has usually been provided by those agencies.

In the quality certification domain, local business organisation (SMPL and CCI) have played a very active role. They organise many meetings on the subject together with the making of auditing and training on a collective basis. They also got funding from public sources (Conseil régional, ministries, EU) and created training organisation (IDECQ) around a network of technicians with St-Etienne SME's, an organisation specialised in training to improve quality within firms. This theme of quality improvement has therefore been organised on a territorial base (St-Etienne) bringing together under the leadership of business associations public agencies, public funds, and private consultants.

The firms we saw identified this as a relevant collective competition good but not as a major problem. They usually considered they had rapidly access to information and effective consultants to react, train and adapt to the new norms. Those organisations which provide those goods are either regional/local branches and then based in St Etienne or at the national level.

Training, recruitment

This is also an interesting example of local production of collective competition goods to notice. As explained below, St-Etienne, once characterised by the underdevelopment of the education and training system, benefited from heavy investments to develop all sorts of training including in co-operation with firms first in the 1960's and then more related to the industry's needs in the 1980's.

It is worth noticing that most workers and technicians of our SME's come from St Etienne. This is a labour market which is not characterised by large rate of mobility, particularly inward mobility. Considering the variety of sectors involved in our sample, that does have a major impact except for those firms within the mechanics sector. In those areas, the traditional know how of the qualified working class is now mixed with a sophisticated system of training upgrading skills at different level, different period. In that sector, most directors mentioned either the quality of the workforce or the possibility to train it quickly in accordance to the needs of new projects and new technologies. They also benefited from the production of technicians by IUT (*Institut Universitaire de Technologie*) and BTS (*Brevet de technicien supérieur*) (level baccalauréat plus two years) who are well adapted to the needs of St-Etienne industrial SME's.

Again the statement has to be qualified because it would not be true for the middle management of the senior executives. Because many firms were bought by outsiders, their management tends to come from outside the area, including from the US or Italy in the case of foreign ownership. A little nuance has been mentioned : according to De Banville and Venin (2000), firms creators tend to come from St-Etienne and to have close social and economic networks within the area.

At first results of our survey get us very close to what Pierre Veltz (2000) has shown about the networked firm and the importance of interrelations for the productivity of firms⁸. Most firms have close interrelations both with their clients and subcontractors as far as technical improvement or R and D is concerned but this statement must qualified for St Etienne SME's. Five firm managers in our sample explain for instance that they do not have closer relationship with other firms within the St Etienne area, that they stand on their own. Then they explain that they rather look for clients within the Rhône-Alpes region and St Etienne area. Why ? Because for them, it is very important to have day to day relations with their clients to get more detailed information, to exchange ideas to improve their own products and to adapt their metal products to the anticipated needs of the clients. The same apparent paradox comes out the analysis of their suppliers and subcontractors. Most of our interviewees first insist on their independence. Then they point to the diversity of their suppliers and subcontractors. Most of them are either within the St Etienne area or within the region. When asked about the rationale for this, they mention that they help each other from time to time, that they are reliable, hard working. In the familial and more local SME's in particular, there is a priority given to local firms in the name of identity and proximity. In our interviews, SME's leaders stress classic factors such as the quick reactions of colleagues/competitors in other

⁸ See also xxx

SME's, the degree of informality in business relations, long term relationship with a diversity of SME's leaders, the pride of the city in the mechanics sector, as one interviewee put : "*Here they have mechanics in their blood*".

By contrast, those networks and market relationship tend to go beyond the local or regional market. From the point of view of capital ownership, markets, access to R and D, both market relationship, vertical networks within international and national groups and professional organisations provide a large section of the collective competition goods those firms need.

Listing all the initiatives, the budgets, the actors is a rather uninspiring exercise. This section only provides the key points to put forward the long term investments in St-Etienne in the positive effects in terms of providing collective competition goods together with the limits of the policy entrepreneurialism of the late 1980's and 1990's which led, in St-Etienne as in most places towards a myriads of policy initiatives which impact upon firms remained debatable.

II-3 Economic development policies in St-Etienne : much ado about nothing or rather myriads of initiatives to try one's luck ?

There are two contrasting ways to analyse public policies in favour of economic development in St-Etienne. A first one focuses on the mainly local and national programmes aiming at supporting firms and promoting local economic development, seen in our book in terms of production of local collective competition goods for firms. That leads to the analysis of rivalries between agencies, the lack of effectiveness and the fragmentation of the governance of the local economy (Tirmarche, 1999). The other perspective underlines long term investment in the urban area, indirect support for the environment of firms and the slow making of local collective competition goods, what Veltz names "*Les sucres lents du développement économique*" (1996). At most, the bottle is only half full but at worse it is no more than half empty.

The support of national and European programmes to eradicate the legacy of the black city

As early as the mid 1960's, the industrial in crisis in St Etienne led to specific programmes and concrete support from the state. Together with Valenciennes and the East of France, St Etienne received new investments in the automobile sector : Berliet trucks -then *Renault Véhicules Industriels*, 1500 jobs created in the early 1970's, and then a Peugeot small plant. The state

regional and industrial policy labelled St Etienne as priority area for re-industrialisation, thus benefiting from high level grants for industrial investments. According to State agencies, about 9.000 jobs were created by outside investments in St Etienne between 1968 and 1975 in order to ease the transition out of classic industries.

A second change initiated at that time had to do with the tertiarisation of the city. For an urban area of 450.000 inhabitants, St Etienne has a very low rate of public and private services. State agencies together with the university studied St Etienne decline and came out with analysis of the city. Following its designation as “*Métropole d'équilibre*”, (one priority of the regional policy of the 1960' to support the development of regional capitals) a university was created in St Etienne which marked a change for the local culture where university and training were not the priority of local elites⁹. The physical and economic renovation of the city centre appeared as priorities because shops, services, leisure activities were all underrepresented. Chronic deficiencies in urban planning were still seen as a major problem in the city and in the Ondaine and Giers valleys. Massive social housing programmes were started in order to replace XIXth century remaining working class housing.

The mood of the city was becoming more optimistic by 1974 when it was still expected that these investments would make the departure from heavy industrialisation easier. Those expectations collapsed when large firms faced terminal decline. However, the city did not face a complete collapse and even in the worse years, the unemployment rate did not increase over 13-15 %. But for the next decade, St-Etienne was more than often in the news because of large firms closures, and social conflicts to oppose them.

After 1984 and then 1987 Saint Etienne benefited from two main sources of fundings : first, the *Plan conversion*, initiated by the national agency DATAR. Second, it benefited from European structural funds (ERDF and ESF). It also benefited later from the European LEDA programme. This money was mainly used in two ways.

Firstly, and most spectacularly, large amount of funds were used to "clean" the city which got rid of its reputation of black city. Large zones of industrial land (*friches industrielles*) were cleaned of devastated buildings, the whole centre was refurbished, new industrial zones were created. The physical renovation of the city was done on a massive scale under the leadership of state representatives (prefect and ministries external services director) who controlled both the use European and national funds. This physical renewal of the industrial buildings was accompanied

⁹ This university grew regularly together with other training institute and ingeneering schools. By 2000, St Etienne had about 20.000 students and 12.000 researchers

by funds from the housing and urban policy to demolish/renovate large amount of social housing in the most deprived neighbourhood of St Etienne. All in all, the physical transformation of the environment of the city within a few years was spectacular : the city centre came out as classic city centre, the black image disappeared, middle class housing and commercial premises were built....but a lot remained to be done in the suburbs and for the large social housing neighbourhood. In those years where the physical renovation was at its highest (1984-1988), about 8 millions Euros per year were spent for that.

Secondly, the funds were used for the series of economic development initiatives : grants and support for the creation of SME's, training for unemployed workers or to upgrade skills, (large scale).

Thirdly, the state used its "classic strategy" of directing public investment in Saint Etienne, a strategy which had started in the 1960's : creation and then development of the University and various higher education establishment (such as prestigious Ingeneering schools) , centres of research, concentration of regional centres aiming at upgrading research and innovation within traditional SME's (such as CETIM for mechanics and machine tool industries, see chapter on machine tool). The famous "*plan productique*" (Lévy, 1999, Cohen, 1989) led to the making of a "*Pôle productique*" of St Etienne i.e investments in the research centres and agencies mentioned above to support "new business training programmes" to finance premises in the form of a Science park.

Fourthly, the regional council developed a series of initiatives (under the generic term contracts) to support firms development, attraction or creation in particular in the two areas of Vallée de l'Ondaine and Pays du Giers, just around St Etienne. However within the regional and departmental system, until the mid 1990's, St Etienne economic and political leaders were always marginal within the regional system of Rhône Alpes, hence their weak capacity to extract resources from the region and their dependence upon the leadership of state officials.

Specific programmes, Economic development policy : a myriad of initiatives

In accordance with the methodological guidelines within this project, the survey on local agencies and the supply of collective competition goods was undertaken independently from the survey on firms¹⁰.

¹⁰ This section derives from Olivier Tirmarche's master thesis (DEA) : « and it uses earlier work and forthcoming work by Le Galès (1991), forthcoming 2004, and Lévy (1999).

Seen from that perspective, the production of competition collective goods for local firms by local agencies is mainly characterised by a myriad of weakly coordinated initiatives and whose main rationale is to spend money made available by national and European programmes. It seems to fit the need of the agencies to spend money, and to promote the image of St-Etienne rather than to support the needs of local SME's.

In the 1980's :

- *Pôle productique régional*, 1983 : an outcome of the newly created "contrat de plan Etat-région" in 1983. The idea was to support the restructuring of the industrial milieu in Saint Etienne by creating a concentration of tools and funds to support the modernisation of industrial firms. As usual in the French case, within the various components of the programmes priority was given to the physical element : creation of a science park (one among several dozen at that time) and a brand new building : "Maison de la productique", supposed to bring together applied research centres leading to the modernisation the dissemination of innovation within SME's. Those centres were also part of a regional association which aimed at developing "productique" within traditional SME's, part of the last ambitious industrial plan under the socialist government in 1983.
- Land development : in the 1983, the new conservative Mayor mainly led an expensive land development policy (including absurd developments on top of the hills) within a context of intense local competition within the urban area to attract what remained of existing firms. By contrast, the creation of a local economic development office staffed with qualified officers only started in the very late 1980's, i.e. about a decade after other French cities.
- Risk capital company created by local branches of national banks to support firms development and creation
- One initiative was singled out as the outcome of some form of partnership and hailed as an innovation in the Saint Etienne context, the *Lanceur d'entreprise*, (ie, a sort of firms *pouponnière*) bringing together firms, ingeneering schools, the university, research centres and local authorities.
- A small science park
- A "flagship urban project", the transformation of the old Manufrance building into a prestigious urban neighborhood comprising a congress centre and various amenities.

Most of those initiatives were supported by the State and European money. Things became even more fragmented in the 1990's with the rise of local initiatives.

Whilst most initiatives were then supported by the state and European money, things became even more fragmented in the 1990's with the rise of local initiatives. During the period, both the number of funding sources and the amount of money increased dramatically, reinforcing existing programmes which were originated by state actors. Because European money had to be matched by local and national funds, in the case of St Etienne this led to a serious increase of money. Simultaneously, local initiatives multiplied partly as a consequence of the late making of intercommunal cooperation. It should be noticed that by contrast to other urban areas, local authorities play a very marginal role until the 1990's. In the 1970's, the Centrist Mayor was too close to the conservative bourgeoisie. The following Communist Mayor and his allies wanted State public policies and support, they opposed local economic strategies. In the 1980's, although the new right wing Mayor had led a rural commune before, he was unable to engage in any form of intercommunal cooperation, thus wasting much time and resources for the renovation of the urban area. State officials kept the lead and implemented European programmes and development policies. Cooperation among local authorities of the St Etienne urban area only came to light in the 1990's with the new young Centrist Mayor (he is not a senator as well) of St Etienne who managed to be reelected. An intercommunal body "St Etienne Metropole" was created bringing together 26 communes including Saint Etienne. It created a development agency ADEL which merged five existing organisations –including the two agencies created by steel and coal firms when they left– to promote and encourage economic development.

Assessing the overall amount of money that was made available through all those programmes is not easy. Adding the figures given by various agencies and state local representatives led Tirmarche (1999) to estimate that about 15 millions a year are spent in the St Etienne area for urban renovation and economic development.

Assessing the overall amount of money made available within those different programmes is a risky business, adding the figures of the various agencies leads Tirmarche to estimate that about 15 millions Euros a year are spent through these different programmes (2000).

Formally, the aforementioned measures all aim at supporting local entrepreneurship, at stimulating cooperation both among firms and between firms and other local institutions, such as technical

colleges, public resource centers, etc..; in this way, they are fully in accordance with the new priorities set by the European Union but also the French government or the region. Beyond such a formal convergence, empirical surveys reveal that cooperation between actors suffer from relatively diverging interests and from power struggles despite every body being almost an equal partner as no one is able to impose a global plan. Despite that, there are good evidence of close cooperation between public partners in particular. Nevertheless, cooperating behaviours remain mainly motivated by the need for each actor to spend his money and to attract others 'subsidies in order to lead projects to positive outcomes, ie spending opportunities. As a result, the capacity of public and private sector actors to support the development of local collective competition goods remains rather weak.

- Large firms, in particular in the steel and coal sector created "*sociétés de reconversion*", local agencies in charge of organising the economic development of the area they left. Both were quite active in St Etienne other the years in particular SODIE which was created after the collapse of the steel leader Creusot Loire and SOFRED created by State armament public agency, GIAT.
- Ministry's local and regional branches or agencies : DRIRE (Ministry of Industry), DDTEFP (Ministry of labour and adult training), ANVAR (financing innovations for existing firms) and the prefect himself at the heart of this system. Ciedil : *Centre intergénération pour l'Emploi et le développement des initiatives locales*, created by state agencies : Ministry of labour (DDTE, ANPE) and the prefect to manage European and national funds in a systematic way with two priorities : labour market and economic development. Although the state kept the upper hand, CIEDIL became an example of partnership "à la française" mainly between agencies from the public sector including local authorities, training organisations, some associations or banks. A *sous préfet* ie a civil servant, was appointed specifically to run those programmes. State actors are therefore mainly concerned with spending the money which is available and to find firm and projects
- The Chamber of Commerce and Industry was historically a weak actor. Local business organisations are weak in St-Etienne (Lévy, 1999). The CCI was more a club of notables rather than a dynamic industrial actor. The owners of leading firms would either be from outside St Etienne (headquarters in Paris) or would not be part of the CCI as the Guichard family head of the Casino supermarkets chain, and a longstanding investor and head of the prestigious football club. The CCI was largely a dead organisation which passively observed industrial decline as industrial leaders went away. The services it offered were less and less relevant and the new ones faced competition by consultants. Things started to change in the 1990's (i.e. about 10

years after CCI's in other parts of the country). SME's leaders took the rein, a new staff was hired, and various services to firm, including information were developed within the CCI.

- Training benefited from large sums of money. Usual actors such as the university, Mission locale, the GRETA (ministry of education), CCI 's training organisation, have played a role together with local authorities to create new degrees, in particular at the intermediate level (2 years after baccalauréat) to train technicians or the less skilled engineers.
- Third sector association with an economic development goal such as la Société Forézienne de Valorisation et de Promotion, Services chantier of neighborhood organisations.
- ADILE : Association pour le Développement Industriel de Loire sud, a partnership bringing together the national agency for regional policy DATAR and local firms. It established a dynamic networks of firms and provided many competition collective goods : training, financial grants, labour market for managers, innovation grants, consulting, support to develop international markets....That was a major actor in the production of collective competition goods in the area, often in close cooperation with DRIRE, the local/regional branch of the Ministry of Industry
- Local authorities did not play a major role until quite late. The Centrist Mayor of the 1970's was too close the conservative local bourgeoisie and the following Communist led municipality was too opposed to local economic development. However intercommunal organisations in Ondaine and Giers Valleys took the lead to support economic development agencies.
- The late coming of intercommunal cooperation. In the 1980's although the mayor of St Etienne was the former mayor of a small rural communes, communes of the urban area did not want to engage in any form of intercommunal cooperation which included St Etienne or rather wanted to do it in such a way that it failed miserably. By contrast, communes within Pays du Giers and Ondaine Valley organised on their own some joined policy. Again, at a later stage than most large urban areas, forms of intercommunal cooperation emerged in the 1990's with the coming of the new centrist Mayor of St-Etienne. St-Etienne Metropole was created in 1996 bringing together 26 communes of the urban area and created "L'Agence" a new organisation in charge of economic development for the whole area.

Examples of programmes implementation depend upon the actors and their strategies. Two groups of actors have to be singled out in the first place. A first group includes state local branches :

DRIRE and ANVAR, of the Ministry of Industry – DRIRE civil servants focus on innovations in production methods while ANVAR ‘s concentrate on product innovations-, DDTEFP (Ministry of labour and adult training) and the *Préfecture* which has, supposedly, an integrating role. They are supposed to jointly manage European funds and to share common goals about the both the objectives and the best way to spend the money to support the local economy i.e; to lead to durable changes in firms’ environment and behaviours. They want to push local firms to the road of adaptation to international markets, to upgrading technologies, new skills requirements. These claims are no easy to enforce, and measuring the effectiveness is a tricky challenge. Therefore, they measure their own performance in terms of two indicators : the number of subsidised projects and the ability of each project to fit the eligibility criteria that refer to one’s specialised domain being innovation or training...There is obviously a tension between those two criteria and therefore a rise and rise of subsidised projectswith no clear line as each organisation competes with the others to impose its own criteria and they manage specialised networks.

A second group of actors include local authorities, large firms “sociétés de reconversion” local representatives of the State agency for regional policy, DATAR. Within this group, cooperation is easier : a contribution to the performance of the whole group is seen as a positive outcome for the whole group. Their main concern is different from the first group : they are less concern with provoking durable changes within firms and more concerned with new investment, job creation. They measure success by attracting new projects, financing more developments, attracting more subsidies from different origins to St Etienne urban area. They organise a large and comprehensive network of actors to spend as much money as possible on the greatest number of projects. Accordingly, eligibility criteria are more or less useless, hence some tensions with the first group. In this context, the rise of EU and national fundings in St Etienne urban area stimulates cooperation and convergence : the need to spend EU money and thus state money intensifies and draws greater attention to the quantitative indicators. Eligibility criteria are not abandoned but interpreted in a more flexible way in order to accelerate spending. Both groups cooperate as there are many resources and not enough projects.

Although cooperation among public actors has sharply been on the increase, their contribution to the making of local collective competition goods has remained limited. Short term money spending by public agencies has taken the lead other strategic spending and eligible criterias, including in terms of priority area. Project assessment is rather made on a case by case review, not within a collective project. That was clearly the case even for the most strategic local initiatives which were supposed to differentiate and promote St Etienne economic areas, ie the “Pôles”, the

thematic centres in particular in the following domains : water, medical technologies (from textile to prosthesis and electronics images). These are supposed to be public private partnership bringing together resources (land and subsidies) for firms, research centres, services in one specific areas, for instance chemical products for water cleaning around the leading firm SNF. In practice, those *Pôles* were hardly more than organisation which were a great opportunity to demonstrate something was done, to promote St Etienne in marketing terms and to spend European money. There were part of a myriad of initiatives, programmes and plans which were weakly coordinated and which impact was fairly limited.

However, and that is our line of analysis for many French sectors and cities, over time, some actors use those initiatives to create more than just adhoc artificial structure. Several points have to be mentioned here : firstly, the St Etienne Mayor and his team have been relatively stable over more than a decade now, and they were able at the municipal then intermunicipal level to pursue to more coherent strategy. Secondly, the myth of the return of large firms gradually disappeared. In St Etienne, as in many other areas, SME's leaders in the mechanics sector in particular started to organise, to represent themselves, to play a role in the provision of collective competition goods. The Chamber of Commerce and Industry once the symbol of sleeping organisations for notable, came back to life under the leadership of a new generation of SME's leaders. Taking advantage of "poles" and the CETIM (applied product, research organisation used to be related to the national "plan productique) they developed an organisation, MECCAPOLE, bringing together public research and training centres, local authorities and SME's leaders in the mechanics field. This network has developed the language and the representation of the "mechanics industrial districts", and got an official label promoted by DATAR. They are engaged in a new series of initiatives to create exactly what we called collective competition goods : applied research project using new technologies in the mechanics field, new research programmes with the university, marketing promotion, cooperation with entrepreneurs associations in the Basque country, in Switzerland and the industrial district of Lunezzane in Italy. They bring together about 140 firms in the region and develop collective applied research project, or test new technology in the field of mechanics, including machine tool and metal work. They organise group of firms to respond to particular contracts, organise specific events (like the mechanics forum once a year). They also collectively finance research on new markets and market trends. They are linked to two banks and other organisations to provide funding for innovation projects. Their project is therefore to use the diversity (size and sectors) of St Etienne SME's in the mechanics sector to organise a network of

firms and to develop the provision of collective competition goods in order to compete on wider markets and to support firms development.

Similarly, within the “poles”, there are some interesting developments. In the medical sector, the creation of the “Association pour le Développement et le Rapprochement des Entreprises de Technologies Biomédicales” is following a similar trend. It brings together about 80 firms and public research centres to develop marketing, applied research (to develop new medical instruments for instance), attracting new firms, developing training.

Conclusion on St Etienne

The jury is still out. Assessing St-Etienne restructuring and the impact of policies is still uneasy. However, it is now clear that the worse is over. The dismantling of large firms is done and the remaining industrial sector, although diverse and not very well integrated, to say the least, is fitter and slimmer.

The impact of the programmes should be seen in two different ways. On the one hand, our survey of firms indicate two trends : firstly the deterritorialisation of the production and use of collective competition good which not local. Secondly, the importance of clustering remains strong for certain kind of those goods, to have a solid base before facing foreign markets, in particular in informal terms. St-Etienne industrial SME's tend to use local or regional subcontractors but as far as the suppliers are concerned, the local or regional logics seems to play a minor role. However, there also some cases, less related to the industrial tradition of the area where clients and suppliers are entirely outside St Etienne with no attempt or desire to increase integration within the local economy. Some of the variations are explained by the sector. Our sample was made on a random base and we therefore have a quite large body of firms in different sectors. However in the mechanics and metal work sectors, and to a smaller extent (3 firms) the textile sector, we identified a dense networks of relationship between those firms and the making of collective competition goods. There are clear preference for subcontracting in St-Etienne and to a lesser extent within the region. Although there is intense competition between the firms, there is also a large amount of cooperation. Cooperation takes place in R and D to some extent, in training, recruitment, adapting to norms. There is no cooperation in the field of marketing, finding new clients except joint trip to fairs organised by the CCI. There is close cooperation with the local expertise/technical centres such as CETIM but that does lead to jointly developed projects, long term partnership on specific projects or more institutionalised forms of collective action in that domain.

To some extent, the same ambiguous conclusion derives from our survey on agencies producing collective competition goods. On the one hand, we singled out the competition between agencies, and the mechanisms through which spending money on new project become the ultimate goal of economic policy initiatives. On the other hand, related to the rhetoric of “poles” and “mechanics industrial districts”, there are clear strategy to develop collective competition goods such as training, applied R and D for groups of firms, marketing, finance. That goes together with the strengthening of local actors : i.e. associations of local firms, local authorities, and more autonomous engineering schools and university departments.

An optimistic reading of the St Etienne situation stresses the following point : firstly the dense tissue of varied industrial SME's, in mechanics and metal work in particular but also in new sectors, very specialised, of different size, different sectors, including some success stories which lead the others. Secondly, it is worth emphasising the territorialisation of the production of competition collective goods which seem gradually more precisely attuned to firms needs. Thirdly, thanks to EU and state money, St Etienne urban area is investing in new projects, from transport to cultural amenities and its image is improving, and local actors seem to be on the verge of creating a local mode of governance with sustained priorities over time. It also has a more diversified economy, from industry to services, from the public and the private sector, ie the recipe for success in other French cities.

By contrast, a pessimistic reading mentions the remaining subcontracting nature of local firms, despite initiatives which impact remain limited to develop the use of new technologies, the marginal position in the region comparing to Lyon or even St Etienne, the lack of demographic dynamism and the structural social difficulties which have not be overcome despite EY and state money.

If the French industry keeps its strength in transport, automobile, aeronautics, construction, steel, chemicals, medical instruments, the St Etienne economy should be able to benefit. At the same time, its growing internationalisation should bring more positive results on the long run. Despite the territorialisation of its mode of governance, there is no clear sign of growing autonomy in terms of economic development and there is still a serious backlog of poverty, social housing and poverty to account for, even if the figures are not spectacular by French standards.

St Etienne is not an industrial district in the making but the attempts to produce collective competition goods for industrial firms and to organise networks of firms are interesting developments to pursue. Sometimes, not often, the cognitive framework is useful to mobilise

energies and to support skilled social entrepreneurs. It remains to be seen whether the new credo of local industrial development and networked firms in the mechanics and metal work sector supported by local economic and political elites will have some impact on future economic development.

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