Varieties of neoliberalism? Restructuring in large industrially dependent regions across Western and Eastern Europe

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Abstract
The recent travails of the European Constitution, now Reform Treaty, illustrate the divergence of views on European integration. To many commentators and academics, European integration has come to represent the establishment of a neoliberal Europe characterized by a ‘negative’ form of integration. This neoliberalization of European economies has been underpinned by the perceived threat of globalization and global competition leading to the wholesale restructuring of European economies over the past three decades. However, this article does not assume that globalization and neoliberal integration have homogenization effects; rather, it argues that neoliberalization as a process has produced varieties of neoliberalism across Europe and not one hegemonic form of capitalism. To make this argument, the article focuses on the rationale behind neoliberal policies in different European countries, the specific strategies these countries have pursued and the impacts that these strategies have had on employment and growth in large industrially dependent regions.

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

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1. Introduction

The recent travails of the European Constitution, now Reform Treaty, illustrate the divergence of views on European integration. For some commentators, integration represents the embodiment of unfettered market forces or the establishment of a ‘neoliberal’ Europe (e.g. George, 2008). Such views are reflected in academic debates on the difference between ‘negative’ and ‘positive’ forms of integration (van Apeldoorn, 2002), the ‘second integrationist project’ (Cafruny and Ryner, 2007) and ‘resurgent capital’ (Duménil and Lévy, 2004). In place of a positive view of European integration as a bulwark against internecine warfare, integration is now characterized as a neoliberal project buttressed by the threat of globalization and global competition underpinning the restructuring of European economies (Schmidt, 2002; van Apeldoorn, 2002; Cafruny and Ryner, 2003, 2007; Jessop, 2006; Hermann, 2007). However, rather

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than presupposing the homogenization effects of either integration or globalization, it is important to consider the causes of neoliberal adjustment in different European countries, what specific strategies these countries have pursued, and the impacts that these strategies have had on European regional economies in terms of employment and growth. Thus, it is necessary to focus our argument on how economies are embedded in specific social systems (see Polanyi, 2001 [1944]).

Economic geographers, sociologists, political economists and others have contrasted this socially embedded view of the economy with the idea of universal economic forces, especially the contention that the expansion of free markets and market competition will lead to economic convergence. The analysis and critique of neoliberalism, as the pursuit of free markets is known, has become an important field of study in this area, although one in which it is also easy to fall prey to the homogenizing hyperbole of universal theories. Neoliberalism is now commonly used to describe the epochal shift in political economy from welfare-based government to competitiveness-driven governance (e.g. Larner, 2000). More specifically, neoliberalism is characterized by a number of principles including, but not limited to, the view that (i) markets are the only efficient means to allocate scarce resources; (ii) international free trade is desirable; (iii) state intervention is not desirable; and (iv) labour market flexibility is necessary (Hay, 2004a). There are many other features of neoliberalism highlighted by scholars, policy-makers and activists, both positively and negatively, but for the purposes of this article it is useful to highlight these four issues. Of special interest here are the supposed benefits of labour flexibility. This principle—built on the dual assumption that the market ‘naturally’ produces full employment and that labour enjoys perfect mobility (see Panic, 2006)—is crucial, because it goes to the heart of the issues we are dealing with in our arguments.

The central objective of this article is to illustrate and analyse the variations in economies that have undergone neoliberalisation; that is, deregulation, privatization and economic liberalization. We aim to empirically test the claims of a number of scholars who have argued that there are varieties of neoliberalism rather than one version (Peck, 2001; Brenner and Theodore, 2002; Peck and Tickell, 2002; Larner, 2003; Tickell and Peck, 2003; Peck, 2004; Albo, 2005; Cerny, 2008). In particular, we illustrate how neoliberalism has produced variegated and hybrid regional economies in which universal economic tenets and practices are married to national concerns thereby producing geographically specific political economies. We analyse how the differences between these regional economies results from the particular concerns of diverse capitalisms (Hall and Soskice, 2001; Amable, 2003) embedding specific responses to new ideological and policy imperatives, an issue which is, however, often unaddressed in the existing varieties of capitalism literature (Streeck and Thelen, 2005; Peck and Theodore, 2007).

We are focusing explicitly on European countries in this paper, because these countries can be contrasted with one another as distinct capitalist systems [e.g. Anglo-American, Rhinish, social democratic—see Hudson (2003)] and as having gone through a similar neoliberalizing process. Furthermore, we are considering regions dependent upon industrial employment, because they are most likely to have been detrimentally affected by neoliberalism as well as regional economies from two geopolitical regions—Western and Eastern Europe (see Dunford and Smith, 2000). We are interested in the neoliberal adjustment that these regions have faced and the particular forms of restructuring they have experienced. Because of the approach we are
taking, this article illustrates the changing industrial structure of these regions and places these changes within an analysis of different state strategies. More in-depth analysis of regionally specific strategies would be necessary to flesh out the points we make here. The article consists of two main sections, the first of which deals with the theoretical debates on neoliberalism and the policy legitimation used to justify neoliberalization. In the second section, we illustrate how neoliberalism, as a process, produces variations across different regional economies. We then conclude with a discussion of the policy implications of our empirical findings.

2. Neoliberalism across Western and Eastern Europe

2.1. Varieties of neoliberalism

Whilst the intellectual underpinnings of neoliberalism, based on neoclassical economic principles, has encouraged the extension of the logic of competitiveness across numerous countries and regions (Peck and Tickell, 2002), neoliberalism is also, according to Harvey (2005), a political project focused on the restoration of class power threatened by the redistribution of wealth and income following World War II [also see Duménil and Lévy (2004)]. Despite having these intellectual and political dimensions, where the latter is legitimated by specific policy discourses as outlined below, neoliberalism entails an inherent contradiction between its universal principles and policy implementation. Distinct neoliberal practices can be identified including deregulation in pursuit of market efficiencies, privatization to enable market choice and trade liberalization to extend market competition (see Larner, 2003). These practices are contingent upon the specific national context in which they are pursued in that they are neither applied in the same fashion across all countries nor do they necessary impact on different places in the same way (Prasad, 2006). What this means is that neoliberalism cannot be considered as a hegemonic system of capitalism, but rather that, as a process, it is more useful to think of it in terms of varieties of neoliberalisation.

A number of academics have emphasized the perspective that neoliberalism is more accurately considered as a process rather than a set of specific conditions; that is, neoliberalisation rather than neoliberalism (see Brenner and Theodore, 2002; Peck and Tickell, 2002; Tickell and Peck, 2003; Peck, 2004; Brenner et al., 2008). The economic geographers Jamie Peck and Adam Tickell, furthermore, have argued that neoliberalism has proceeded through a series of discrete phases that help to explain its differential impacts and therefore variations across place and time. They highlight three phases of neoliberalism: ‘proto-neoliberalism’ associated with the pre-1980s theoretical assault on Keynesianism; ‘roll-back neoliberalism’ of the 1980s and early 1990s focused on deregulation and structural adjustment; and ‘roll-out neoliberalism’ from the 1990s onwards concerned with state-building (Peck and Tickell, 2002; Tickell and Peck, 2003).

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

In this sense, neoliberalism is very much a state-led project representing the ‘mobilization of state power in the contradictory extension and reproduction of market(-like) rule’ (Tickell and Peck, 2003, 166). It entails an internal–external dynamic that has led to a shift in government emphasis from national welfare provision to international economic competitiveness (Larner, 2000), although the former has also been cast as dependent on the latter (i.e. welfare through economic growth). Because it is state-led and entails an internal-external dynamic, neoliberalism is country specific and therefore as much reliant on national political economy as previous forms of economic regulation. Therefore, neoliberalism cannot be viewed as a form of capitalism per se, which means that national systems or varieties of capitalism (Hollingsworth and Boyer, 1997; Hall and Soskice, 2001; Amable, 2003; Peck and Theodore, 2007) have responded in different ways to the neoliberalization process. Consequently, the pursuit of international competitiveness in one place is different from other places reinforcing and reproducing uneven development across different countries and, as importantly, regions (Dunford and Perrons, 1994).

Despite having clear intellectual and political goals, neoliberalism as a project is founded on a central problematic assumption. Namely, its universal treatment of economic ideas means that it both presumes the possibility of perfectly operating markets and assumes that such markets can be imposed, indiscriminately, across different countries. The fallacy underlying neoliberal prescriptions has been exposed by subsequent events, including various international financial crises as well as by the inherent contradiction between neoliberal principles and the political legitimation of neoliberal policies. Of particular interest to us here is the lack of concern with industrial structure in different countries and the assumption that labour markets are not contingent upon (supra)national institutional conditions. We want to illustrate this last point by considering two specific forms of policy legitimation used to justify neoliberalism, one focusing on Western Europe and the other on Eastern Europe.

The first concerns the European Union’s emphasis on the knowledge-based economy (KBE) in recent policy, whilst the latter concerns the advice to transition countries in Central and Eastern Europe that they suffer from over-industrialization.

### 2.2. Neoliberal policy legitimation in Western Europe: the KBE

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

The link between the KBE and neoliberalism has become increasingly evident in policy discourse where the former is seen as a driving force behind global competitiveness and therefore the need for neoliberal reforms (Hall, 2003; Jessop, 2006). In particular, the pursuit of high-tech employment and global market share has been a long-term policy goal in the European Community and Union (Rodriguez-Pose, 1998). Perhaps, the clearest example of this policy emphasis is in the European Commission objective to make Europe the dominant world KBE by 2010 (EC, 2000). This was first proposed in the 2000 Lisbon Agenda and has since been reinforced by the 2004 Sapir Report (Kitson, 2005). The latter, for example, stresses that European countries need to reform their labour and social policies in order to remove barriers to market entry, encourage innovation and improve education, reiterating the earlier policy suggestions of the OECD.

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

### 2.3. Neoliberal policy legitimation in Eastern Europe: over-industrialization

Since the famous 1930s debate on planning and the market led by Hayek and von Mises, neoliberals have long stressed the ‘knowledge problem’ faced by central planners under state socialism. Kornai (1992)—a renowned dissident Hungarian economist—has built his entire scholarly critique of state socialism on the basis of the knowledge problem lying at the heart of state planning and bureaucratic control. Noting the vast mass of knowledge that needs to be accumulated, processed and acted upon for bureaucratic coordination to work, Kornai has argued that such a task in theory was too huge and demanding for government planners and managers. Moreover, as Kornai’s (1992, 130) experience has shown, planning ‘can be solved somehow or other, but the practical solution is full of frictions, dysfunctional features, inefficiencies and internal conflicts’.
‘Over-industrialization’ has become the main manifestation of dysfunctional totalitarianism. It is used to refer to centrally planned economies’ heavy emphasis on industry, the encouragement of the production of capital producer and military goods, with underdeveloped and ‘repressed’ trade, financial, business and consumer services. The neoliberal economic doctrine has contended that the root of this problem in ‘transitional’ economies (in much the same was as in more traditional developing ones) lies in the extensive state ownership of productive assets, pervasive state control over economic activity and comprehensive government allocation of factors of production according to a centralized plan (Yarbrough and Yarbrough, 1997, chapter 21; cf. World Bank, 1996). It has also been alleged that the ‘Stalinist’ promotion of heavy industries was the direct result of the knowledge problem: coal-mining and steel-making had found favour with central planners as the end commodities measured in tonnes were simple to account and set targets for, unlike various intangible services.

The advent of market forces was meant to result in massive sectoral restructuring, the closure of subsidized industries and ‘ideologically motivated’ production. Indeed, given the reportedly high degree of the industrial distortion (de Melo et al., 2001, 11; Aslund 2002, 125–126), a large number of neo-liberal economists and Western policy advisors have claimed that some de-industrialization or ‘reduced over-industrialization’ would be unavoidable and even beneficial for the over-industrialized state socialist economies. The successful transition from plan to market was going to release the labour ‘hoarded’ by the industrial sector to the service sector as well (Mickiewicz and Zalewska, 2002, 8–11).

2.4. Neoliberal adjustment and regional restructuring

Taking ‘varieties of neoliberalism’ seriously necessitates a new look at industrial restructuring in light of these policy discourses. In this article, we focus on large industrially dependent regions (LIDRs) across Western and Eastern Europe, because neoliberalization is most likely to have had a deleterious impact on both employment and performance in these places as they respond to KBE and over-industrialization policy imperatives, respectively (Dunford and Perrons, 1994; Dunford and Smith, 2000). First, however, we need to consider how neoliberal adjustment produces variations in regional restructuring as a consequence of national implementation of neoliberal principles. In the context of regional restructuring, it is useful to consider how previously existing path dependencies have been destroyed and/or new paths created. Path dependence in industrial regions has been characterized by reliance upon large organizations that embed specific regional institutional arrangements: for example, the existence of large firms means that local services do not develop because these activities are organized within the large firms themselves (Hudson, 1988). In order to erode this arrangement, neoliberalism needs to produce a (ideological) crisis to which neoliberal adjustment is then the natural solution (Hay, 2004b). The crisis in the case of Western Europe was full employment and the consequent rise in inflation (Tickell and Peck, 2003). For example, in the 1980s, British monetary policy sought to control inflation and, in so doing, it contributed to the continued hollowing out of manufacturing following privatization (Peck, 2001).

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

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

Despite the concern with upgrading to ensure international competitiveness, there is no necessary reason that such ‘creative destruction’ will lead to the creation of high value-added sectors since the context in which neoliberalization occurs is not the same across different countries and places. The intellectual principles underlying neoliberalism do not take a number of crucial factors into account that are central to the variations in neoliberalism. These include, but are not restricted to, the assumption that labour is perfectly mobile, that geography is not important and that socio-political conditions are external to markets (Panic, 2006). To illustrate this problem of neoliberal adjustment and the geographical variations it produces, we have focused on regional restructuring in Western and Eastern Europe, especially on changes in industrial structure, employment upgrading and deskilling, and regional performance. We have taken 1980 in Western Europe and 1990 in Eastern Europe as the starting points for roll-back neoliberalism, followed by 1995 and 2000, respectively, for the starting points for roll-out neoliberalism. In the analysis, we consider how particular state strategies pursued by different countries have led to different forms of regional restructuring and what has motivated these specific strategies.1

3. Methodological note

3.1. Identification of regions

Our main method is an analysis of regional statistics. Given our primary focus on regional restructuring in different parts of the continent and the general lack of a well-established regionalist typology covering both Western and Eastern Europe, we adopt a methodically rigorous and empirically focused approach in identifying what can be described as LIDRs in a wider European context. We use European Union NUTS2 regions as the smallest territorial entity for which the more detailed and reliable data on employment by various disaggregated industrial branches are available. We define a large industrially dependent region as an area with the three core attributes: (i) a share of industrial employment in total employment above the respective national

1 For more detail on specific national strategies with regards to employment change in the EU, see the FP6-funded DYNAMO project (http://www.dynamoproject.eu/index.shtml).
level at the beginning of restructuring; (ii) a ratio between the industrial share and the market services share of total employment above the respective national level at the beginning of restructuring; and (iii) a total number of industrial jobs in the region above the West/East European average at the beginning of restructuring (of 208,000 and 236,000, respectively). This procedure has produced a list of 30 LIDRs in Western Europe and 10 in Eastern Europe. Table 1 details these regions in full.
3.2. Data definition and sources

Our starting point of analysis is 1980 in the West and 1990 in the East, with the end point of 2005. The process of regional restructuring is assessed through an analysis of absolute employment change in industry and service sectors: *industry* is defined as the energy and manufacturing sectors and *services* as market, non-public services. Regional economic performance is split between two periods (roll-back and roll-out phases) and defined by gross domestic product in 2000 Euro prices. The data source for this part of the analysis is Cambridge Econometrics, *European Regional Data Spring 2007 Edition*. Given the difference in the time-scale of regional restructuring, the process of upgrading is analysed between 1995 and 2005 for Western Europe and 2000–2005 for Eastern Europe. Regional industrial upgrading is analysed through the change in high and medium high-technology manufacturing employment and in low and medium low-technology manufacturing sector. For services, regional upgrading is analysed through the change in the knowledge-intensive high-technology services employment and in total less-knowledge-intensive services. The data source for this part of the analysis is Eurostat, *General and Regional Statistics, Regional Science and Technology Statistics: Human Resources in Science and Technology*. The applied definition of high- and low-tech sectors is that of Eurostat.

4. Restructuring across LIDRs in Western Europe

4.1. European integration and varieties of neoliberal adjustment

As is evident from the data we analyse (see figures below), the European Union (EU) has experienced significant change in industrial structure over the last 25 years, particularly in regions dependent upon industrial employment. This ‘structural crisis’ of the 1970s and 1980s has been attributed to the falling rate of profit by Duménil and Lévy (2004, 22–23) who also highlight the consequent growth in unemployment. Simplifying somewhat, the subsequent and ongoing (neo)liberalization of EU economies in response to this crisis embeds two key drivers of restructuring that have led to different employment and growth outcomes in different countries and their regions. The first of these is the institutionalization of *monetarism* in the 1980s as a response to rising inflation, exemplified by the 1987 Single European Act (SEA) (van Apeldoorn, 2002; Schmidt, 2002). Second, the 1990s were characterized by labour market reform in pursuit of *labour flexibility* as not only another means to reduce inflation (through wage restraints) but also to resolve the growth of unemployment resulting from monetarist policies introduced in the 1980s (Cafruny and Ryner, 2007). Thus, in part at least, the former informed the latter. Labour market reform became necessary, because European integration, in the form of a common European market and price stability, had meant that currency devaluation was no longer a viable strategy, thereby putting greater pressure on wage rates as well as national welfare systems necessitating labour market reform (Schmidt, 2002; Jessop, 2006).

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

Although European (neo)liberalization entails both monetarism and labour flexibility, it is also characterized by a ‘negative’ form of integration that limits the extension of EU policy in particular areas (van Apeldoorn, 2002; Cafruny and Ryner, 2007). Whilst ‘mutual recognition’ of products and services between countries can be seen as a form of deregulation leading to a ‘race to the bottom’ (Schmidt, 2002, 100–101), employment policy is characterized by an ‘open method of coordination’ in which policy is implemented by national governments overseen by European institutions ‘leading to multiple solutions reflecting different national traditions and current policy preferences’ (Jessop, 2006, 154; also Hermann, 2007). Consequently, national state strategies retain a central role in the neoliberalization process, not only because they directly impact on areas like employment and industrial restructuring, but also because these strategies are benchmarked against one another providing examples of different restructuring policies oriented towards ‘employability’ (van Apeldoorn, 2002; Hermann, 2007).

These ‘disintegrative effects’ of European (neo)liberalization (Cafruny and Ryner, 2007, 131) help to explain why different countries have pursued different strategies of neoliberal adjustment, particularly in relation to the promotion of labour flexibility, and how different state strategies have led to the different forms of restructuring in the LIDRs we discuss below. Although we focus on labour flexibility, we also acknowledge the co-constitution of employment and social policies, especially in relation to the importance of ‘familial’ welfare systems in certain countries—e.g. Germany, Spain and Italy (DYNAMO, 2007)—and the ‘engendering’ of welfare policies in others—e.g. UK (MacLeavy, 2007). Taking these issues into account, we have identified three broad scenarios of neoliberal adjustment across West European LIDRs from the data we have analysed (Figures 1–4).

4.2. Neoliberal adjustment as path destruction in Western Europe

The first scenario is one of regional de-industrialization and deskilling or simply ‘path destruction’. These regions include most in Britain, several German regions (e.g. Mittelfranken, Schwaben and Arnsberg), Haute-Normandie (France), Piemonte (Italy) and Norte Portugal. It is notable that (a) apart from in Norte Portugal, market services employment failed to replace industrial employment losses in these regions, and (b) no region had an absolute increase in high-tech employment. Somewhat paradoxically, the shift towards services and loss of high-skilled employment has not proved detrimental to regional economic performance since most of these regions have reasonable annual growth rates, especially the British regions, although growth rates are not necessarily better than the national average. Thus, these regions can be characterized as increasingly dependent upon service sector employment and consumer spending rather than export-led competitiveness.

Those LIDRs experiencing ‘path destruction’—that is, de-industrialization and de-skilling—are largely limited to two countries; Britain and Germany. However, this similarity hides distinct strategies pursued in each country. For example, Britain initially encouraged labour flexibility through the ‘weakening of trade unions and the welfare state’ (Koch, 2004, 22) and a subsequent emphasis on micro-level policies such as ‘welfare-to-work’ (Evans, 2005). Consequently, British LIDRs have suffered because inflation has been contained through high interest rates impacting on export sectors (e.g. manufacturing), whilst productivity has been promoted through an
Figure 1. Western Europe: change in employment in energy and manufacturing (industry) and market services (services), total percentage by region and nation, 1980–2005.

Figure 2. Western Europe: change in employment in high and medium high technology manufacturing sector (hi-tech) and low and medium low technology manufacturing sector (low-tech), total percentage by region and nation, 1995–2005.
Figure 3. Western Europe: change in employment in knowledge-intensive high technology services (hi-tech) and total less-knowledge intensive services (low-tech), total percentage by region and nation, 1995–2005.

expansion of employment rather than technological upgrading, both of which have, in turn, led to growing consumer expenditure and debt (Wilkinson, 2007).

In contrast, German adherence to fixed exchange rates and wage restraint as part of their ordo-liberalism strategy, which had kept imports cheap and therefore living standards high (Ryner, 2003), was then threatened by the loss of export markets following EU convergence (e.g. SEA)—itself supported by Germany (Menz, 2005)—and reunification. The subsequent turn to ‘competitive austerity’ drove the deregulation of German labour markets (Ryner, 2003, 208) as the state sought to retrench a ‘social market’ financed by export competitiveness through subsidizing a low wage sector; e.g. by covering employers’ social contributions (Menz, 2005). Thus, whilst Britain has encouraged a services sector through low wages and cuts to social protection, Germany has developed a two-tier labour market in which a low-wage sector has to be promoted, because high wages in manufacturing, maintained in exchange for technological upgrading (Cafruny and Ryner, 2007), discourage the development of the services sector.

4.3. Neoliberal adjustment as path reconstruction in Western Europe

The second scenario fits most closely with the KBE thesis in that although these regions have experienced a loss of industrial employment they have managed to retain and even increase high-tech manufacturing employment alongside some growth in high-tech services; both absolutely and relatively. These regions have therefore enjoyed a degree of upgrading across multiple sectors and, as such, represent examples of ‘path reconstruction’ in that existing high-tech manufacturing is retained alongside the development of other high value-added activities. In this category are the two Spanish regions, four German, four French and three Italian regions. Furthermore, only four of these regions (three French and one German) have failed to replace the lost industrial jobs with new market services employment, although two (Oberfranken and Lorraine) have lost high-tech services jobs. Despite the growth in high-tech employment, however, the GDP performance of these regions is low and rarely higher than national growth rates. What this perhaps illustrates is the creation of regional ‘competitive austerity’ (Cafruny and Ryner, 2007, 10) with these regions dependent upon export-oriented sectors and therefore tied into productivity growth through cuts to wages and benefits that inhibit the stimulation of internal demand.

The two-tier labour market in Germany is evident when considering the number of German LIDRs that have experienced some form of ‘path reconstruction’. Those German regions that have had increases in high-tech manufacturing employment have not developed more high-tech service jobs than other countries. These regions fit more clearly into the strategy of ‘competitive austerity’ than those that have experienced de-industrialization (Ryner, 2003). Whilst a number of French regions also appear to follow this pattern, there is a subtle difference in that most of these regions have suffered from an overall loss of employment; i.e. services jobs have not replaced lost industrial jobs and industry has been hollowed out more in the French regions. This is a consequence of the French shift from a dirigiste state model to ordo-liberalism as part of an integration strategy driven by ‘competitive disinflation’ later embedded by European Monetary Union (Clift, 2003, 175, 182). The inability of the French state to alter their welfare system meant that unemployment became the main mechanism for maintaining competitiveness.
of adjustment producing underconsumption and structural unemployment (Clift, 2003, 183; Cafruny and Ryner, 2007).

In contrast, the strategies pursued by the Italian and Spanish states appear to have had a similar effect to the German reforms; that is, the creation of a dual labour market (McVeigh, 2005). However, the segmented labour market in these two countries was compounded by the lack of welfare support (unlike the German model), whilst the state has played a less active role than in France (DYNAMO, 2007). Thus, employment protection has remained in Italy and Spain for existing workers, whilst new entrants (e.g. young people and women) have predominantly been incorporated into new temporary and insecure positions (Koch, 2004; McVeigh, 2005; DYNAMO, 2007); this helps to explain the higher growth in services than either German or French regions. However, there are still differences between Spain and Italy. The former has relied more upon foreign direct investment (FDI), which has ‘helped to sustain a low-cost labour market and boosted the number of firms whose labour relations were “sheltered” from the surrounding system’ (Molina and Rhodes, 2007, 238), explaining the continuance of industrial employment in Catalunya and the Basque Region. In contrast, the retention of social protection levels in Italy has meant that labour costs have increased—impacting on industrial employment—whilst flexibility ‘has followed a sporadic, case-by-case approach’ (Molina and Rhodes, 2007, 242).

4.3. Neoliberal adjustment as path creation in Western Europe

The final scenario is a picture of both services upgrading and manufacturing deskilling although there is also an overall rise in high-tech employment, which we would argue is another form of KBE that we term ‘path creation’. These regions are limited to only three countries and include Rhone-Alpes and Central France, Noord Brabant, and South Yorkshire and Derbyshire, although Denmark could also be included as well. Along with high-tech services, all the regions have had an absolute (if not relative) growth in low-tech services employment, whilst British regions have not replaced industrial employment losses with new market services jobs. The economic performance of these regions is largely better than the national average in both periods, except for the British regions, suggesting that the continental regions have better adapted to the changes in industrial structure. Arguably, the loss of high-tech manufacturing has meant that these regions have benefited from higher internal demand rather than an emphasis and dependence upon export-led sectors.

The final case of regional ‘path creation’ is much less significant than the other two above since it is only relevant to five regions and Denmark. The growth of services employment and particularly high-tech services in Noord Brabant and Denmark is evidence of two similarities between national strategies: first, both the Netherlands and Denmark instituted wage restraint earlier (in the 1980s) than many other countries (Bieling and Schulten, 2003); and, second, they have both encouraged active labour market policies as part of their welfare systems (Cafruny and Ryner, 2007). Furthermore, what distinguishes these two countries (and the UK) from France is their tax-based social system, as opposed to contribution-based, meaning that there is less pressure to finance social protection through labour costs (unlike France) and therefore less impact on employment growth (Pioch, 2004, 58–60). Consequently, Denmark, the Netherlands and UK have been able to expand into new employment
areas more easily than in France, which explains the lower levels of services upgrading in French regions.

Despite the similarities between their welfare systems, however, there is still a difference between the two smaller countries and the UK relating to their respective strategies with regards to expanding and upgrading services employment. According to Cafruny and Ryner (2007, 51) the KBE ‘depends on wages and benefits adjusting to the diminishing returns of output expansion that are inherent in the service sector’. Whereas Denmark and the Netherlands have used wage restraint to adjust as highlighted above, the UK has reduced social protection instead. The consequence of the latter strategy is evident in the wholesale shift of largely male industrial workers from unemployment support to incapacity benefits, which has had a deleterious impact on many regions in the UK (see Beatty and Fothergill, 2005).

5. Restructuring across LIDRs in Eastern Europe

5.1. Post-communist transition to capitalism and structural adjustment

The fundamental long-term objective of neoliberalization policies in post-communist Europe, commonly referred to as transition, was to dismantle a centrally planned economy and to end state socialism as a social system. In contrast with the processes in Western Europe, the scale of neoliberal market-oriented reforms in the East had to go far beyond the deregulation of labour markets or privatization of state-owned assets and towards a wholesale (re-)construction of capitalism. Operationally, neoliberal adjustment was driven by the structural adjustment programme (SAP), which had been tried first in Latin American countries in the 1980s. The SAP model was redesigned in the late 1980s and early 1990s as a set of key policy measures aimed at shifting non-market societies towards a liberal market-based economy. Dubbed the ‘Washington Consensus’, the orthodox transition approach called for several immediate policy measures including budget austerity, tax reform, trade and financial liberalization amongst others (Williamson, 1993, 1994).

These neoliberalizing policy measures, more widely known in Eastern Europe as the ‘Shock Therapy’, became a general prescriptive mechanism to ensure the transition towards a vision of free market economy epitomized by the Anglo-American system of competitive capitalism and limited government involvement (Gelb and Gray, 1991). According to Williamson (1993, 1334), the orthodox reform package was considered a generally applicable ‘universal convergence programme’ summarizing ‘the common core of wisdom embraced by all serious economists’. The free play of market forces was meant to address the problems of over-industrialization with industrial restructuring implemented through a laissez-faire approach as the often-quoted phrase by Poland’s first post-communist Minister of Industry, Tadeusz Syryjczyk, illustrates: ‘no industrial policy is the best industrial policy’.

Eastern European countries therefore experienced powerful homogenizing forces in which the contradictory process of neoliberal transition was characterized by an initial and mostly unsuccessful attempt to create a state-led model of Continental capitalism based around large, domestically owned industrial companies, which was followed by the more successful move towards full insertion into the European and global economy via FDI and incoming transnational corporations (TNCs) (Myant, 2007). Thus, as argued by Drahokoupil (2008a, 2008b), different policies and initial
internally oriented strategies of neoliberal adjustment privileged domestic sources of investment, but these policies had by the late 1990s given way to externally oriented strategies emphasizing the promotion of competitiveness by attracting foreign investment.

It has been widely agreed that by the mid-2000 all of the east European countries have successfully built capitalism with the stamp of approval sealed by their accession to the EU (Lane and Myant, 2007). The European Bank of Reconstruction and Development’s (EBRD) assessments of national levels of market freedom (e.g. privatization, liberalization and banking reform) put the five countries we analyse here (Bulgaria, Czech Republic, Poland, Romania and Slovakia) ahead of most other Eastern European countries in terms of their transition progress (authors’ own calculations on the basis of EBRD, 2008). In this regard, it is rather symptomatic that, by the late 2000s, the United Nations changed the official designation of these states from being in ‘transition’ to those of ‘developed countries’. Despite the observed convergence in the process of neoliberalization and capitalist (re-)construction, there have been some considerable differences in terms of timing, sequencing, implementation and wider societal implications of the neoliberal transition reforms in these five countries that has led to significant differences in industrial restructuring. We are again able to identify three scenarios of neoliberal adjustment across the 10 LIDRs in the new EU member-states from the data we have analysed in Figures 5–8.

5.2. Restructuring Eastern Europe: the path destruction scenario of transition

Similar to our analysis of Western Europe, three broad paths of restructuring can be identified in the trajectories of East European LIDRs. The first pathway is of severe de-industrialization (or reduced over-industrialization), massive loss of full-time regular employment and the wholesale downgrading of economic activities and skills. Skills downgrading is the most intense and sharp in the industrial sectors but, typically, it has its profound impact on the nature of services as well. This path-destruction scenario of neoliberal adjustment fits particularly well the trajectories of the three Bulgarian and Romanian LIDRs. The degree of industrial job destruction that has hit Bulgaria’s Severen and Yuzhen regions and Romania’s Centru in the 1990–2005 period was rather dramatic and, generally, on par with the national experience. The job creation record of these LIDRs has also been the worst amongst all. The services sector employment grew in these regions, outpacing the national averages. Yet given the low level of development of market services under state socialism, the amount of newly created jobs in the services sector has failed to alleviate the decline in industrial employment. As the data show, the Bulgarian and Romanian LIDRs have also gone through a process of deskilling with a decline in high-tech and growth in low-tech industry and services employment.

The path destruction scenario of neoliberal adjustment in the post-communist Europe is partly explained by the erratic transition policies pursued. In contrast with the Czech Republic, Slovakia and Poland, which have followed the ‘big bang’ type of neoliberal shock therapy, Bulgaria and Romania adopted a ‘go-slow’ approach. Both neo-liberal economists and foreign policy advisors have attributed the difference in macroeconomic performance between post-communist countries to these two modes of reforms, with the early radical reformers reaping more of the benefits of
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Figure 5. Eastern Europe: change in employment in energy and manufacturing (industry) and market services (services), total percentage by region and nation, 1990–2005.

Figure 6. Eastern Europe: change in employment in high and medium high technology manufacturing sector (hi-tech) and low and medium low technology manufacturing sector (low-tech), total percentage by region and nation, 2000–2005.
Figure 7. Eastern Europe: change in employment in knowledge-intensive high-technology services (hi-tech) and total less-knowledge-intensive services (low-tech), total percentage by region and nation, 2000–2005.

transformation, Europeanization and globalization than the rest (Cernat, 2006; Havrylyshyn, 2006; Åslund, 2007).

A number of critical political economists and sociologists of post-communism have attributed the socio-economic divergence in the outcomes of transition not to the pace of neoliberalization per se, but rather to the type of capitalism being built. For instance, King (2007) has developed a dichotomous typology of post-communist ‘capitalism from without’ leading to liberal dependent capitalism and ‘capitalism from above’ leading to (neo-)patrimonial capitalism. Whilst liberal dependent capitalism have emerged in the Visegrad-Four group of transition leaders (the Czech Republic, Hungary, Poland and Slovakia), neo-patrimonial or ‘political’ capitalism arguably has been taking root throughout much of the former USSR and the post-communist Balkans. The latter variant of post-communist capitalism is based around political accumulation fostered through personalistic, patron-client connections between state officials and large domestic business groups. The resultant accumulation regime has been unable to generate enough internally sourced investment to carry out positive, ‘strategic’ restructuring of the industry. Instead, it had to rely on raw materials export leading to capital flight and technological downgrading, causing much destruction and little creation (cf. Lane 2000, 2007).

5.3. Restructuring Eastern Europe: the path reconstruction scenario of transition

The second path of neoliberal adjustment in Eastern Europe is best characterized by the reconstruction of the regional industrial base through significant manufacturing upgrading. This second scenario is evident in the Czech and Slovak LIDRs. Path reconstruction has included a mild correction of the over-industrialization phenomenon accompanied, in some cases, by an expansion of market services. The loss of industrial employment between 1990 and 2005 in these LIDRs stood at a moderate 15% on average, whereas the services sector expanded by a third. As the data suggest, path reconstruction has been the only scenario to generate a net positive employment growth in Eastern Europe between 1990 and 2005. However, the defining feature is the expansion of the high-tech manufacturing industries at the expense of low-tech branches. The story of the services sector is reversed: growth in the services employment is almost exclusively confined to low-tech services, whereas high-tech services either have not developed or declined. On average, the Czech and Slovak LIDRs were able to achieve a 20.6% growth in high-tech manufacturing employment. The growth performance of these regions, as that of most other LIDRs in Eastern Europe, appears to depend heavily on the respective national economy. However, those LIDRs that have achieved a significant increase in high-tech manufacturing employment tend to generate the fastest growth rates in comparison. A notable exception in this group is Moravskoslezko, ‘the steel heart’ of the country, a region heavily dependent on coal and steel industries and expectedly the worst performing area amongst the Czech and Slovak LIDRs.

The path reconstruction scenario in Eastern Europe is the quintessential product of King’s ‘liberal dependent capitalism from without’. This type of post-communist capitalism is exceptionally reliant on transnational corporations and foreign banks to supply capital, technology and expertise as well as access to world markets, thereby permitting ‘more firms in non-resource-based manufacturing to restructure to enable their survival on the market—and to export to Western Europe without
massive technological downgrading and occasionally with substantial upgrading’ (King, 2007, 325). Indeed, the Czech Republic and Slovakia have not only been the leading recipients of FDI, importing almost three times as much capital per capita than Poland, Bulgaria or Romania, but they have also become an integral link in the global network of TNCs, mostly West European automotive giants. Competitive export-oriented accumulation strategies of the Czech Republic and Slovakia are revealed in their foreign trade to GDP ratios, which in 2004–2006 amounted to exceptionally high 144.7% and 162.7%, respectively. By contrast, the corresponding figures for Romania and Poland stood at 77.7 and 78.4, whilst the ‘new shop floor of the world’—China—reached 69.0 (WTO, 2008).

5.4. Restructuring Eastern Europe: the path creation scenario of transition
The third path of regional restructuring under post-communism involves a break from the industrial past and the rise of the services sector. It includes both a moderate degree of de-industrialization and a moderate development of services. Yet in terms of technological capacities, the path creation scenario is characterized by an absolute decline in both high-tech and low-tech manufacturing accompanied by a very rapid and significant expansion of high-tech services and growth in low-tech services. This restructuring is limited to Poland’s Łódzkie and Śląskie regions. The degree of industrial downsizing experienced by Poland’s LIDRs stands somewhat in between the two previous scenarios of neoliberal adjustment, at 20% on average. Despite growth in services during the 1990–2005 period, neither of the two Polish LIDRs was able to recover the industrial employment losses. In terms of technological development, the two Polish LIDRs have experienced considerable deskilling of manufacturing, with a simultaneous decline in both high- and low-tech employment. This process has been accompanied by a rapid expansion of high-tech services, amounting to 44% of employment growth on average and a moderate increase in low-tech services of 12%. The path creation scenario of transition did not lead to a longer-term reduction in output, yet economic growth amongst the Polish LIDRs was far below the national average. The data show rather modest, though fairly stable, average annual GDP growth rates of 2.4% in the 1990s and 2.7% in the 2000s.

The path creation scenario is the product of what has been described elsewhere as a weakly coordinated or softly regulated type of post-communist capitalism, which, as Myant (2007, 105) has put it, ‘had to start as a capitalism without capitalists and also without capital’. Poland’s transition to capitalism has been characterized not just by the radical implementation of shock therapy and the introduction of fluid labour market policies but also by the protracted national strategy aimed at retaining the state control and ownership over strategic heavy industries, including coal, steel and ship-building (Mykhnenko, 2005, 2007a, 2007b). Although this internally oriented transition strategy eventually failed, for a considerable period, the services represented the most open and attractive sector of the national economy, ready to be developed and integrated into the global web of Western banks and TNCs.

6. Conclusion and policy implications
We have drawn two broad conclusions from the preceding empirical analysis and below we consider the policy and theoretical implications of these conclusions. First, regional
restructuring and economic growth trajectories have followed national trends fairly closely in most cases, especially in Eastern Europe. However, there are still differences, since some regions have diverged from the national process of neoliberal adjustment. We can therefore identify, as we sought to do, varieties of neoliberalism across the European regions we have considered in this article. For example, the industrial structure of a few German, French and Italian regions has not changed as dramatically as the national average, whilst GDP growth rates in some regions have been significantly better than national rates (e.g. Mittelfranken, Schwaben and Pays de la Loire). Thus, despite the close fit between national and regional trajectories, the restructuring that these large industrially dependent regions have undergone are individually distinguishable. More work is therefore needed to explain how particular regional strategies have contributed to these trajectories, which would add greater depth to the analysis we have undertaken here.

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

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

There are several regional examples of restructuring that reflect the policy discourses of KBE and over-industrialiation, although others do not. In particular, several regions in Western Europe have actually retained low-tech manufacturing alongside high-tech manufacturing (e.g. Spanish regions and two French regions), whilst a few Eastern European regions have managed to upgrade their manufacturing base (e.g. Slovakia). What this suggests is that the pursuit of a one-size-fits-all policy agenda driven by the neoliberal imperative of global competitiveness for all European regions
is short-sighted. The support of new ‘knowledge’ sectors at the expense of existing structural conditions can prove costly, both economically and, more importantly, socially. Furthermore, support for particular sectors will benefit those regions with an existing capacity for those industries, which means that LIDRs will be more threatened by neoliberal adjustment than other regions that are dependent upon market services and ‘knowledge’ sectors. It is therefore likely that the drive to become the world’s most competitive knowledge economy with the attendant demands for increasingly deregulation, labour market flexibility and trade liberalization will impact detrimentally on the employment prospects of LIDRs inhabitants, whilst the economic performance of these regions will not necessarily be sufficient to offset the problems brought on by increasing social divisions and inequality.

The theoretical implications of these findings suggest that there is a need to distinguish not only between neoliberal (as ideology), neoliberalism (as state strategy) and neoliberalisation (as process), but also between the scales at which these concepts are relevant. The distinction we wish to draw between these concepts—and their ‘scale optics’—maps onto the phases outlined by Peck and Tickell (2002): proto, roll-back and roll-out. We would argue that whereas neoliberal ideology—based on abstract economic concept such as free market efficiency—represents a global discourse (i.e. proto) that developed at diverse sites around the world (Harvey, 2005; Peck, 2007), neoliberalism—as a state-led project—produced national varieties of neoliberalism in which deregulation, privatization and trade liberalization (i.e. roll-back) were pursued for different political reasons, in different ways and to different extents. For example, Prasad (2006, 102, 108) argues that monetarism ‘failed’ in the UK, because there was a political concern with reducing the Public Sector Borrowing Requirement that was then married to inflation control. Finally then, the process of neoliberalization can be seen as a more relational and context-specific (e.g. regional and local) implementation of neoliberalism (i.e. roll-out) in which existing uneven geographical development has been ‘intensified’ through the ‘reworking of, inherited institutional landscapes’ (Brenner et al., 2008, 4). Here, the ‘sedimented imprint of earlier policy regimes seldom completely disappears’ at the regional (or local) scale meaning that we cannot necessarily identify distinct regional varieties of neoliberalism, but instead we can illustrate the ‘variegated’ restructuring of regional economies as a process of neoliberalization (Brenner et al., 2008, 9).

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4 The term “scale optics” was suggested by one of the anonymous reviewers: our thanks to them for suggesting this.
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