

Chapter 2. Literature Review

2.1. Introduction

“The fact that economic agents live, breathe and make decisions within a cultural environment is readily observable. So, too is the fact that this environment has some influence on shaping their preferences and regulating their behaviour, whether this behaviour is observed at the level of the individual consumer or firm, or at the aggregated level of the macro-economy.

Yet in its formal analytics, mainstream economics has tended to disregard these influences, treating human behaviour as a manifestation of universal characteristics which can be fully captured within the individualistic, rational-choice, utility maximising model, and seeing market equilibria as being relevant to all circumstances regardless of the historical, social or cultural context.” (Throsby 2001: p9)

The subject matter of this study is multidisciplinary in nature. However, the key questions to be addressed and the analytical tools used are economics related, therefore the focus in this section will reflect this.

The range of discipline areas underpinning this present study include aspects of the economics of development - national and local, the theory of small business start ups and entrepreneurship, together with aspects of the economics of culture and language. Not all areas within the above however, have complete relevance to this work, as will be indicated below.

Literature regarding the application of the above to the specifics of the economies of the Western Isles and Skye & Lochalsh (the ‘Gaelic Economy’) in relation to present/past Highland and Island / Scottish development, and also the implications of the single market for peripheral economies is also relevant to the current thesis, and is examined in further sections of the work.

The review will assess the relevance of traditional economic development theory to the problems facing the Gaelic economy - a peripheral sub-region of Scotland, operating within the dynamics of the European Union's 'Single Market'. It will be shown that within the relevant literature there is now increasing acknowledgment of the need for an endogenous approach to local economic development, and of the

potential importance of culture and diversity (including linguistic diversity) within this. Specifically it will be argued that the development and promotion of GLAC can be seen as an integral part of the development of the Gaelic economy, helping provide an appropriate framework for long term economic and social development. A summary of the relevant issues raised within this area of economic literature is found in Table 2-7 p 86, towards the conclusion of this chapter.

2.2. Approaches to development

Implicit in the word *development* is the notion of change. A country (or area of a country) which is deemed to be on the path of development is considered to be going beyond a simple rearrangement or re-ordering of existing resources to maximise utility or profit. Fundamental to the concept of development is the search for an *optimum*, sustainable growth path which is superior to the previous, possibly constrained, economic path trodden by the country in question¹. Although short run jobs are important, the focus is on securing long term economic and social development.

However, even more than other fields of economics, development economics has no universally accepted doctrine or paradigm. As in other areas, contending schools compete in offering differing explanations of current and past experience and different prescriptions for future progress. Although clearly focused on *economic* aspects of the developmental process, models of economic development sit alongside other contending schools of thought. Other disciplines such as sociology, political economy / marxism, feminism, developmental studies each offer insights into the developmental process, some aspects of which are shared across disciplines.

A typology of approaches based on Peet (Peet and Hartwick 1999) illustrates features of each model, and sub-divisions in approach where commonly recognised.

¹ “Development means improvement in a complex of linked natural, economic, social, cultural, and political conditions” Peet, R. and E. Hartwick (1999). Theories of Development. New York, The Guildford Press.

Table 2-1 Typology of approaches to development

Model	Main Features	Sub-divisions					
Economic	Economic Aspects Isolated	Neo-classical	Dynamic	Keynesian	Developmental	Neo-Liberal	New growth theory
Sociological	Environmental and Cultural features stressed	Naturalism	Rationalism	Structural functionalism	Modernisation		
Political Economy	Production as a social relation	Structural Marxism	Imperialism	Dependency theory	World systems Theory	Regulation Theory	
Post-Developmental	Rejection of 'grand narrative' solutions	Post colonialism	Intellectual dependency theory	Rethinking development	Post structural	Post developmental	
Feminist	Gender relations	Socialist Feminism	Women in Development	Women and Development	Gender and Development	Women Environment and Development	

The main feature of the *economic* model of development as outlined above, is thus the isolation of economic aspects of change. Approaches within this model mirror the contending schools of thought existing within mainstream economics, such as Keynesian or Neo-liberal approaches (see below). Also sharing much common ground with this approach is the stream / model generally classified as political economy. Whilst adopting a less ahistorical and abstract approach than the *economic* model outlined above, the various sub-divisions of this framework are also firmly built upon a structure of *economic* change, albeit closely linked to the varying political dynamics forming the background of the specific studies undertaken.

It is the literature within these two streams which have provided the main basis for modern economic development theory, and which will be examined below.

2.3. Defining the paradigm of economic development

Given the wide range of approaches involved in the above two streams, it is therefore necessary to avoid the paradigm of economic development being too narrowly stated. A useful survey of approaches to the meaning of Economic Development is found in

Todaro (Todaro 2000). Whilst recognising that in strictly economic terms, development had traditionally indicated the ability of national economies to grow over a period in terms of their Gross National Product (GNP), linked often with 'modernising' structural change such as increase in manufacturing's share of national output, plus some change in non-economic social indicators, such as an increase in literacy rates etc, Todaro outlines the shift by many economists from the 1960's onwards to a wider definition following the experience of third world 'development' in previous decades. Thus Seers, (Seers 1969), highlights poverty, unemployment and inequality as additional indicators of development in addition to GNP. Goulet (Goulet 1971) and Owens (Owens 1987), stress 'the development of people rather than the development of things', while the World Bank, (the champion of Economic Growth in the previous decade), entered the 1990's now championing *as ends in themselves* 'better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater freedom, and a richer cultural life' (World Bank 1991: p4). In general, the three core values/ aims of development are broadly summarised by Todaro as

- *Sustenance*, (to increase the availability and widen the distribution of basic life-sustaining goods)
- *Self esteem* (to raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values)
- *Freedom*, (to expand the range of economic and social choices available)

Considering many of the issues raised by Todaro, Cypher and Dietz (Cypher and Dietz 1997) outline the process of constructing alternative measures to development than the GNP, using similar criteria to those proposed by Todaro. In this regard, they positively cite the United Nations Human Development Index as an increasingly used indicator of a countries' development in the widest sense. As the United Nations Development Programme describes the HDI, it

"Shows how far a country has to travel to provide these essential choices to all its people. It is not a measure of well-being. Nor is it a measure of happiness.

Instead it is a measure of empowerment." (UNDP quoted in Cypher and Dietz 1997)

Although it is not intended within the framework of this thesis, to develop any comprehensive alternative indicators of development for the Gaelic Economy, the strengths of the literature above, in outlining factors wider than solely GNP as a benchmark of development, will be acknowledged and drawn upon where appropriate.

2.4. Linking Economic Development to Growth

In a useful model combining elements of both the economic and political economy approaches, and therefore providing a helpful framework against which to assess specific contributions within the literature, Professor Simon Kuznets, in his 1973 Nobel Lecture (Kuznets 1973), suggested that the process of economic development in a country could be categorised as follows:

"A long term rise in capacity to supply increasingly diverse goods to its population, the growing capacity based on advancing technology and the institutional and ideological adjustments that it demands"

Although not as explicit as Todaro on the breadth of change which *development* encompasses, reference to institutional and ideological adjustments firmly place this definition within the framework of both models of development mentioned above. The concept of adjustments also brings in the issue of timescale, implicitly rejecting any assumption that development may be easily achieved through the quick construction of an off the peg economic package, or one based on simplified and reductionist premises.

Developing his argument, Kuznets suggested that for economic development to be successful and eventually self sustaining, dynamic changes in more than one sphere of society would be necessary. Within the traditional economic sphere, high rates of growth in per capita output and total factor productivity (especially labour productivity) should occur, normally accompanied by a high rate of growth in population. A high rate of structural transformation of the economy would also be necessary, as would high rates of *social and ideological transformation* to accompany the other changes.

Observed as integral to the growth process as historically perceived by Kuznets² were a series of sectoral and structural changes, experienced by contemporary developed countries. These included the shift from agricultural to non agricultural occupations; from rural to urban based centres of manufacturing and services; from small scale / family businesses to multi-national and trans-national enterprises.³

If the conditions outlined above were achieved, and society was able to achieve rapid economic growth (ideally through the mass application of technological innovations), then it was thought to be possible to create a situation where the economic surplus to finance further progress in scientific research could become self generating, and the nation concerned would have broken into the self sustaining path of development.

It is within the debates on the dynamics of such a general framework for development that the analytical basis for this present thesis is constructed.

The literature surveyed within the following sections will also illustrate the benefits in the view of this author, of moving from a generalised ahistoric and geographically unspecific model of growth (as espoused by standard neo-classical authors), to a more holistic and endogenous approach based upon the often diverse and locally specific resources found within local communities, such as those related to Gaelic arts and culture.

² Although Kuznets is suggested as illustrating the best common framework against which to assess contending views of a common paradigm, other paradigms have also been adopted from a general political economy perspective such as that of the Public Choice theorist Mancur Olson. Olson, M. (1982). The Rise and Decline of Nations. New Haven, Yale University Press. Olson puts forward 'distributional coalitions' as an explanation of slow economic development. The ability of collusive groups to come together to further their own interests leads to an increasingly stagnating economic situation. Societies in which these narrow interest groups have been destroyed – through war, or similar upheaval, are found to gain in terms of economic growth, released from the previous constraints of narrow group's interests. This perspective however has remained a minority approach within the economics discipline.

³ This is notwithstanding the more recent observations reversing this trend in many *already industrialised* countries i.e. de-industrialisation, de-urbanisation, hiving off/ contracting out, the development of rural industries (tourism crafts etc), post fordism and 'post-industrialisation' etc. In addition, one could cite the return of previously manufacturing based cities to concentrating on differentiated services allowing increased regional and or city specialisation (i.e. Edinburgh for financial investment products, Leeds for insurance etc).

2.5. Economic Models of Development and Growth - Post War Schools of Thought

In constructing a theoretical framework for the economics of development, post World War II literature - customarily targeted by practitioners towards the issues facing less developed countries - can be seen to have evolved through a series of distinct phases and are normally perceived to form several major and sometimes competing schools of thought, each raising issues touched upon within the Kuznets approach. Whilst it is important to acknowledge that the field is wide and such categorisation does risk the problem of over-simplification (each approach drawing upon varying elements in the typology outlined in Table 2-1), the highlighting of common features also helps illuminate what would otherwise be an unnecessarily complex field.

Table 2-2 illustrates such a typology of approaches which better allows the subsequent isolation and assessment of alternative schools and their possible relevance for this thesis.

Table 2-2 Schools of thought in relation to economic development

<i>Economic Schools of thought</i>	
School	Component Element
Linear Stages	Keynesian
	Neo-Classical
Structural Change	Latin American Structuralists
	Institutionalist
Dependency Theory	Marxist
	Non Marxist
Endogenous Theory	Various

It is suggested that, these approaches may usefully be grouped into - the **linear stages of growth** model; theories and patterns of **structural change** and their implications, **dependency theory**; and increasingly over recent years, an approach, adopted by economists from a wide range of backgrounds often referred to as 'new growth theory' or '**endogenous growth theory**'. Each 'school', being broadly defined on the basis of their general assumptions. A useful further sub division of these schools can also be made, on the basis of perceivable differences within their common approach.

These sub-divisions, where they exist are also given in Table 2-3 together where appropriate, with leading exponents who are identified with these approaches.

Of all the approaches mentioned above, the linear stages of growth model, albeit with various modifications, may be said to continue to exercise dominance over the mainstream of the field of developmental economics, whilst the insights offered by the 'new growth', or endogenous growth framework currently holds the largest alternative audience amongst practitioners in the field.⁴ In examining the main models below, it is suggested that the endogenous growth theory framework offers the most fruitful basis for evaluating the hypothesis offered by this present thesis. Further, it will be suggested that the insights offered by the endogenous approach at a generalised, or national level, have also been taken up by certain regional development theorists who offer useful additional insights into sub-national development, key to the present thesis. A summary of the attributes of these schools is outlined in Table 2-3 followed by a fuller elaboration of their respective approaches.

⁴ For a flavour of the positions (and passions) held by the respective schools, see e.g. Romer, P. (1994). "The origins of endogenous growth." The Journal of Economic Perspectives 8((Winter)): 3-22.

Table 2-3 Summary of models and their attributes⁵

Approach	Models	Attributes/ Key Issues	Strengths	Weaknesses/ Criticisms
Linear stages of growth	Harrod & Domar	Posit technical relationship between saving, investment and growth	Simplified model; fits in with donor/ recipient approach	Assumes structural, institutional and attitudinal changes already present; Prone to 'knife-edge' instability
	Solow	Predicts convergence of per-capita incomes of countries sharing same rate of saving and population growth	'Solves' technical issue of instability found in Harrod and Domar approach	Assumes technology is pure public good, available to all freely. Assumes will have same impact irrespective of skills levels etc; Increasingly fails to be backed by empirical evidence
Structural	Singer/ Prebish	Attempt to integrate 'totality of social system and differing forms of interaction'. Reject Ricardian theory of comparative advantage	Illustrates gulf between textbook theory and practice regarding terms of trade	Adopt same process of structural change as previously industrialised countries, protected by tariff barriers etc
	Ayres/ Myrdal	Understanding societies institutions seen as key to understanding economic development. Role of state crucial.	Evolutionary approach; Concept of cumulative causation - virtuous or vicious circle.	Concept of 'ceremonialism' (Myrdal) - customs/ culture working against 'technological dynamism' is contested by others in Institutionalist school
Dependency	Baran/ Cardoso	Cause for lack of development seen as <i>external</i> to socio-economic formation of lesser developed nations	Recognise impact of transnational companies and their links to local elites	Disagreement as to implications of dependency - i.e. negative (Baran); possibly mutually beneficial (Cardoso)
Endogenous Theory	Barro/ Romer	Stresses role of human capital; jettisons assumption of diminishing returns to inputs of capital and labour	Source of growth sought locally, based on specific economy's production function. Helps explain difference in real performance between countries with similar rates of savings and investment	Like Solow model, most endogenous models still unable to explain more than approximately 50% of growth rate.

⁵ While more models exist than outlined above, those chosen are the ones which perhaps best illustrate typical features of each approach, and differences between schools.

2.5.1. The linear stages theory

The basis of this approach, the influence of which can still be detected in most elementary undergraduate economics textbooks today,⁶ may be likened to a **stages of growth** model of development. Within this approach, popularised by Rostow, the transition from underdevelopment to development is seen as a series of logical stages through which all countries must proceed. Each of the individual stages is felt to have an 'inner logic and continuity' and able to embody the insights of the economies which had already achieved 'self-sustaining growth'. (Rostow 1960: p3)⁷

Following the appropriate rules of development therefore allows countries who wish to change their economic trajectory to take off into self-sustaining growth.

A principal attribute of this model was the exposition of how to mobilise domestic and foreign saving in order to generate sufficient investment to accelerate economic growth. The economic mechanism by which more investment leads to more growth could be seen in the **Harrod-Domar** growth model, an approach associated with the Keynesian school of economics.

Key to the concepts underlying the models which are based on the stages of growth approach, is an understanding of the interrelationships between savings, investment and growth within an economy.

For any economy to remain at a steady state, sufficient capital must be invested to replace the ongoing depreciation of current machinery and other factors of production. For an economy to grow will need an additional net investment of capital over and above this minimum amount. Intuitively we may assume that there exists a relationship between the investment of capital (K) and the rate of growth of National Income, GNP (Y). Traditionally this ratio is referred to as the capital-output ratio and is normally assumed to be a constant (k). Taking the argument further and assuming

⁶ i.e. Sloman, J. (2003). Economics. London, Prentice Hall., Parkin, M. and D. King (1995). Economics. London, Addison-Wesley.

⁷ Indeed a criticism which can be made of the early approaches by the HIDB (see below) is that the early HIDB under Robert Grieve was wedded to a linear model of requiring to industrialise the Highlands and islands as a necessary stage which they had missed out on. With the benefit of hindsight however, a comment which might be made, was that the Highlands and Islands had effectively leapfrogged the industrial phase and were well

no injections from sources exogenous to the model, it can be shown that there exists a relationship between the total amount of capital investment possible in a given economy and the total level of savings in the economy. The implication of this is that the rate of growth of an economy is determined jointly by the national savings ratio (s) and the capital-output ratio k , the relationship between s and the rate of growth being a positive one, and that between k and the rate of growth a negative, or inverse one.

Two points follow from this - the more a country can save and invest (in the relevant industries, thus replacing and enhancing machinery and other means of production), the faster it will grow (as measured by GNP). Secondly, the rate at which it can grow for a given level of saving and investment can be measured by the inverse of the capital-output ratio k , which is the output-investment (or productivity) ratio. Multiplying the rate of new investment by its productivity will give the national growth rate of the country.

The policy implication of this analysis therefore is that all that is needed in order to raise economic growth in an economy is for the percentage of national income saved to be raised over time.

It also follows that if there is a shortage of domestic savings to allow this, then the judicious addition of foreign investment can fill the gap and achieve the desired end. Thus the model in this simplified form fits in well with the traditional donor-recipient approach to growth through foreign aid, which may go some way to explaining its popularity particularly in the decades following the 1950's.

2.5.2. Drawbacks to this approach

Whilst the linear stages model in this form offered a logical and consistent framework for approaching the issue of economic development, it also contained several crucial weaknesses both in its internal assumptions and also in the presuppositions it made regarding the economic conditions under which it might be made operative.

positioned for the post industrial/ post modern. The early growth poles policy can now be seen to have entirely failed – as seen in Invergordon, Corpach and Caithness. The petrochemical complex never happened.

Regarding the latter, it *assumed the existence* of the necessary structural, institutional and attitudinal conditions to allow such investment to come to fruition. However in real life, it was normally the case that underdevelopment in the economic sphere came hand in hand with a lack of precisely these elements needed to complement the linear growth model - a high level of general education and skilled labour, abundant managerial and entrepreneurial skills etc. Thus while an increase in savings and investment could be seen as a **necessary** part of the model, by themselves they could not be counted as **sufficient** to help a country achieve economic take off under this approach. Although the Gaelic economy is situated within the UK economic sphere, its Highland specific nature (including the fact that both inner and outer Hebrides are island based), has long had implications for the supply of skilled labour (until very recently no Higher Education establishment was based on the Islands)⁸. In addition serious and long term transport (and other) infrastructural problems have existed, thus illustrating in a practical manner, the difficulty of applying a geographically unspecific theoretical model.

As will be seen below, the abstract nature of such simplified neo-classical models which seemed to fail in their connection with local realities helped lay the ground for the eventual emergence of the endogenous school of economic development.

For those however, attracted by the paradigm offered by such a stages of growth model as in the **Harrod-Domar** framework, several fundamental issues internal to the model had also been thrown up which cast doubt on its operability and which were subsequently to lead to its amendment and development into the more robust and now standard '**Solow** - type' model of growth. (Solow 1956: pp 65-94)

Fundamentally at issue was the 'knife-edge instability' involved in the model due to several of the key assumptions internal to its working.⁹

⁸ It could be argued that until the establishment of the University of the Highlands and Islands – very much aimed at improving indigenous growth and development, the necessity of young people from the Islands to move away to the mainland to receive Higher Education was very much a case of developing 'education for export'.

⁹ Amongst the assumptions were: constant rate of growth of the labour force; net savings and investment remaining as fixed proportions of total output; finally the two inputs to production *K* and *L* are used in fixed proportions.

An unwelcome result of these assumptions was that the warranted rate of growth i.e. the rate of growth of output which was consistent with equilibrium would work out in practice to be quite unstable (Cypher and Dietz 1997: p129).

At any given capital - output ratio k , a failure to grow at *precisely* the rate appropriate to the current level of savings s had the result that the economy would tend to veer away from equilibrium, either producing spiralling unemployment in the economy if the actual rate of growth was too small, or runaway inflation, if the actual rate of growth was higher than the warranted rate. The implication of this was that only judicious and continual intervention by a government or central authority could ensure the matching of the actual and warranted growth rates - a conclusion which sat uneasily with free market economists.

In reaction to these issues, Solow undertook the first major development of the linear stages of growth approach to eliminate these problems. His solution, which was elegant and efficient in its elimination of the recognised problems of Harrod-Domar 'instability', was to remain the seminal approach to the economics of development until growing empirical evidence cast doubt on its predictive ability in practice.

2.5.3. Solow's model

Solow's model can be depicted by a Cobb-Douglas production function as outlined below:

$$Y(t) = A(t)K(t)^{1-\beta}L(t)^{\beta} \quad \text{where } 0 < \beta < 1$$

which states that GNP is a function of technological change, (A) , capital (K) and labour (L) . In the model, standard neo-classical assumptions are made of diminishing returns to both capital K and the labour L in the short run, with constant returns possible by increasing all inputs by the same percentage over the long term (i.e. $1-\beta+\beta=1$). We may note that these assumptions were later to be challenged by

endogenous theorists, together with the final assumption that technological change $A(t)$ was exogenous to the model.¹⁰

Under the Solow model, the technical issue of instability is solved. Assuming that the rate of change of the (fully employed) labour force L remains constant, as does technological change, Solow predicts the achievement of a constant steady state level of real per capita income for any given level of savings and investment. More importantly for developmental economists however are two other integral implications of this approach. Firstly, as a result of the dynamics of the model, we can predict the convergence of per-capita incomes of all countries sharing the same fundamentals - i.e. the same rate of saving and same rate of population growth. In practice this suggests that poorer countries will grow at a faster rate than richer countries with which they share similar savings and population characteristics. Secondly, due to diminishing returns, another implication of the model is that countries are ultimately unable to increase their *rate* of economic growth by increasing their investment in investment goods. Adoption of an increased accumulation regime will lead only to the quicker *achievement* of the in built level of steady state per capita income related to the specific level of saving and investment adopted by the country.

Although the implications of a steady state outcome is one which has subsequently taxed the energies of many economists, the most important implication of the Solow approach for development economists is that countries which are poor and not growing are poor precisely because they are not saving and investing a high enough proportion of their gross income.

The resultant recommendation to accumulate capital at a higher rate, and hence create higher levels of capital per person, through increased saving, has remained fundamental to virtually all the strategies recommended by economists as the means to increase economic growth and development. Differences however (some of which relate directly to the role of culture as mentioned above) have emerged as to the

¹⁰ In addition to assuming the exogenous nature of technological change, technology in the Solow model is treated as a pure public good, available to all countries and firms freely, and apparently with the same effect on

nature of the capital accumulation and the environment in which it is put to use. These differences have also been supplemented by disagreement over the empirical results of following the Solow model of development, and the Solow model's difficulty of application at a sub-regional level where uneven development may lead to localised lack of growth or even recession, against a possible wider picture of positive economic growth elsewhere within the national economic unit.

2.6. Alternative approaches to development

Following the insights of the Harrod-Domar approach and its response from Solow, the linear growth approach tended to suggest that economic growth was *largely a technical, or even a transfer problem* to be solved through larger injections of physical capital into the production process of poorer nations or regions. Growing problems of empirical justification however, ensured continued contestation from other schools of thought.

Eschewing the 'timeless constructs of neo-classical economic theory' in favour of 'the dynamic effects of real economic forces' (Cypher and Dietz 1997: p171) contending schools of thought contemporaneous to the linear growth theorists could be found in the work of **Structuralists** such as Singer, and Prebisch (Prebisch 1984; Singer 1989) or **Institutionalists** such as Ayres (Ayres 1978) and Nobel Economics Prize Winner Gunnar Myrdal (Myrdal 1957). At the same time and in many ways examining similar issues it was also possible to find relatively influential **Path Dependency** theorists, many of whom were heavily influenced by Marxism.

2.6.1. The Structuralist school

The main insights offered by the Structuralist school come from their attempts to integrate the 'totality' of a social system and the differing forms of interaction of the component elements within it. Rejecting traditional Ricardian tenets of development such as the theory of comparative advantage, economists such as Prebisch and Singer were able to show how despite text book theory, terms of trade over time tended to work against less developed nations rich in primary products and industry, but poor

productivity, irrespective of skill level etc, an assumption whose unreality was evident to many practitioners of development economics.

in secondary industries such as manufacturing (the 'Prebisch-Singer hypothesis'). The solution advocated by such writers was that the nations of the 'periphery' had to follow the path of structural change previously adopted by 'centre' nations, often bolstered behind a regime of tariff barriers. In practical terms this led to policy prescriptions of 'import substitution industrialisation'. It could also, however fit comfortably with the policy of foreign aid, commonly advocated where necessary under the Solow approach.

Institutionalists such as Ayres and Myrdal, also believed that key to understanding the development of an economy was the understanding of the 'institutions' within which the economy operated - that is, the forms of production, ownership, work processes and ideologies which combined to create an economy. Since such institutions evolved through time, an evolutionary approach was adopted to the study of these economies (in distinction to the ahistorical approach of the neo-classical school). Amongst the insights offered by the Institutionalist school (Ayres) was an appreciation of 'ceremonialism' - customs or culture which could operate as a negative force against what he saw as the motive force for economic progress - 'technological dynamism'¹¹. This is of interest given the apparent existence of a low level of entrepreneurship in the Gaelic speaking areas. Myrdal also undertook some groundbreaking analysis of differences in economic development within regions of poor countries, emerging with the concept of 'cumulative causation', where the dynamics of various commonly observable processes - the tendencies for inequalities to increase during development; the bias of trade in favour of richer nations/ regions; and inequality working against enhanced economic growth would operate concurrently to create either a *virtuous* or *vicious* circle.

¹¹ "Two forces seem to be present in all human behaviour in all ages: one progressive, dynamic, productive of cumulative change; the other counter-progressive, static inhibitory of change' Ayres, C. (1978). The theory of Economic Progress. Kalamazoo, New Issues Press. This view however, was contested by other voices in the Institutionalist school.

"In the normal case, a change does not call forth countervailing changes but instead, supporting changes, which move the system in the same direction as the first change, but much further. Because of such circular causation, a social process tends to become cumulative and often to gather speed at an accelerating rate" (Myrdal 1957: p13)

Thus if a prosperous region of a country received an economic stimulus then that region might surge even further ahead, leaving the more economically backward regions lagging behind. Such movements away from equilibrium tended to be cumulative, exacerbating low levels of development in some areas and favouring positive development where it already existed. This insight has relevance to this thesis and could be applied to the labour force situation within the Gaelic economy. Young people customarily left the area in their teens, attracted by the possibilities of advancing their educational prospects, or indeed attracted by the higher rewards available in the Scottish central belt. The result of this was to leave the Islands denuded of exactly the generation of skilled workers which would be most useful to any vibrant community. Important for Myrdal was the role of the state in intervening to bring about a more positive outcome, a 'strong' state operating in a positive manner, whereas a 'weak' state would tend to allow such detrimental development to continue.¹²

2.6.2. The Dependency school

A final contending school of thought could be found in the **Dependency School** of development, building in some ways upon the structuralist approach of centre and periphery. In this approach, the centre was viewed as the 'cause' the periphery as the 'effect'. In general, the Dependency School tended to find cause for the lack of development to be *external* to the socio-economic formation of the less developed nations. For Marxists such as Baran, the main issue was the extraction (by a parasitical class or transnational corporation) of the *economic surplus* produced by the lesser developed nation, caught in a situation of stagnation (Baran 1957: p xxvi). For others such as Fernando Cardoso, whilst Lesser Developed Countries (LDCs) could be seen to be operating in a situation of 'associated dependent development', this was

¹² "The state.....is often in under-developed countries a weak state served by a comparatively ineffective and sometimes corrupt administration" Myrdal, G. (1957). Economic Theory and Underdeveloped Regions. London, Duckworth.

not the same as stagnation, and indeed it was possible to achieve a 'positive-sum' (i.e. 'win-win') situation where states could take advantage of the reciprocal needs of the major transnational companies operating on their territory.¹³ Although targeted in the main at Latin American and other less developed regions, Hechter (Hechter 1999) has developed this approach in relation to the UK, in arguing that up until the early 1960's the 'Celtic Periphery' of the UK similarly suffered from the 'dualistic economic structure' created within the British state. In particular he has argued that:

“While the economy became highly diversified, the peripheral economies were on the contrary, extremely specialised, and thus particularly vulnerable”

From the 1960's Hechter believed that UK policy changed in favour of regional economic development.

2.7. Empirical evidence and the neo-classical approach

Whilst none of the alternative schools of development have been able to occupy or dislodge the pre-eminent position of the Harrod Domar or Solow approach to economic development, a growing body of evidence has nevertheless tended to cast doubt on the adequacy of some of the generalisations of the neo-classical school.

In particular the model has proven inadequate in explaining apparent similarities of development (or non-development) from countries with shared characteristics whose difference in relative performance in comparison to other countries with different characteristics can not be put down solely to differences in levels of investment.

In addition, the implication in Solow's model of eventual convergence in national per capita incomes of countries as they took the path of development, has not been supported by empirical data - the reverse in some situations being the case.¹⁴

¹³ "The present situation of dependent development goes beyond the traditional dichotomy between the terms 'development' and 'dependence', because it permits an increase in development while maintaining and redefining the links of dependency". Cardoso, F. and E. Faletto (1979). Dependency and Development in Latin America. Berkeley, University of California Press.

¹⁴ As Plosser (quoted in Cypher, J. M. and J. L. Dietz (1997). The Process of Economic Development. London, Routledge.) has noted, if physical capital differences were to account for per capita income in the US being 20 times that of per capita income in Kenya, capital stock would have to be 8000 times greater, when in fact it is approximately 26 times larger. Closer to home, Fagenberg and Verspagen, (quoted in Asheim, B. and M. Dunford (1997). "Regional Futures." Regional Studies 31(5): 445-455.) noted a clear decline in the speed of convergence in Europe in successive decades from the 1950s to an apparent halt in the 1980s

Consequently this has led to a number of economists giving greater prominence to the pitfalls suffered by developing countries arising through 'path dependency' and thus to highlight a country's local specifics in a more prominent manner. It has also led to a critical re-examination of the policy recommendations to accumulate ever more physical capital, that is, save or borrow more, that emerged from the neo-classical economic formulations.

Amongst the questions at issue were why, contrary to prevailing orthodoxy, did it appear that countries on low income and low growth paths remained on this trajectory, whilst others, once set on a trajectory of success and growth, tended to increase the distance between themselves and the low growth countries. Similarly causing question, was the evident fact that some countries could seemingly 'jump trajectory' and leave a 'low growth trajectory' to enter a high growth path.

An additional, but connected issue was the fact that empirical research on growth using the neo-classical approach typically found that often well over 50 percent of the growth rate of a country, could not be accounted for by changes in the use of capital and labour, leaving the 'unexplained' (or 'Solow') residual as the **major** determinant behind growth rates.

This uncertainty has led in the last two decades to the emergence of endogenous theories of growth, many of which have sought to examine the diverse factors and influences based within the specifics of each particular country or region that might reasonably be attributed to this residual - such as the effects of education, technology, business organisation, research and development efforts, culture, growing international trade, local politics etc. Given the peculiarities of peripheral regions and sub-regions (such as the Gaelic economy), the endogenous approach has proven to be a fruitful area of analysis for this thesis, particularly given the cultural aspects of minority language development involved in the geographical area in question, together with the particularities of enterprise and business in remote rural areas.

2.8. Endogenous theories of growth

Endogenous growth theories do not accept all of the main theoretical premises of the neo-classical approach, nor the assumption within this that technological progress

can be treated as exogenous. Importantly, these models jettison the neo-classical assumption of diminishing returns to the inputs of capital and labour.

Neither do they assume, nor find, physical capital accumulation to be the dominant determining factor in spurring economic growth (nor in explaining income differences between countries). Rather, many of them focus on the positive effects of increasing the quality of the 'human capital' - i.e. the workforce which forms an integral part of the production process.

The importance of human capital

The creation of human capital is commonly viewed in the endogenous growth paradigm as arising through any improvements in the quality of labour, be that the result of increased education, on the job learning, better health care, interaction with other workers with accumulated human capital, or other influences which improve labour's productivity without adding more physical capital to production.

In conceptual terms, such a process may create a 'synergy' from the higher skills and educational level achieved i.e. enabling labour to build upon its past education and training, so that the 'same' level of human capital input becomes more productive over time. The presumption is that the higher the level of human capital accumulation, the more powerful its effects, therefore breaking the link with the neo-classical model of diminishing returns.

Any such process - of complementing technological change for instance, with an increased knowledge and practice based ability to take advantage of this - will be shaped and formed differently by each specific economy, greatly depending on the institutional and organisation structure of each economy itself. In other words *growth will be an endogenous process* emerging differently from the diverse economies concerned, each of which will have a different production function, depending both on the resources of the country, and also on the 'feedback' mechanisms affecting technological change in the specific country.¹⁵ In this approach, the inputs to

¹⁵ Cypher summarising Romer Romer, P. (1994). "The origins of endogenous growth." The Journal of Economic Perspectives 8((Winter)): 3-22., suggests that adopting this approach would suggest we categorise a typical aggregate production function for an economy as e.g. $Y = F(R,K,H)$

production are not perfect substitutes for each other (as in the Solow model), rather they are complementary. Thus there will be no 'steady state' of growth - the key inputs, skilled labour, sophisticated capital, new forms of technology remaining closely interdependent. Throsby has also stressed the possible impact of *culture* in a wider sense, on this process, culture defined as a:

“Set of values, beliefs, traditions, customs, which serve to bind a community together” (Throsby 2001: p63)

Understood in this way, it is not difficult to propose that culture will effect the way that individuals in any culturally specific group think and act, and will also have a significant effect on the way the group as a whole behaves. Culture therefore may mediate processes that are supra-cultural. This point has already been raised with reference to Myrdal's views (above).

Several reports made by the World Bank have shown a growing interest in the possible impact of such inputs on aggregate production - particularly in relation to the performance of the 'Higher Performing Asian Economies'.

Amongst the conclusions of one study by the World Bank (The World Bank 1993) are the unimportance *by itself* of the level of physical investment for explaining the growth process, the important features identified for growth being human capital accumulation, capital accumulation (weakly significant), research and development expenditures, political stability and openness to international trade.¹⁶

where R represents Research and development, K physical capital and H human capital (both treated separately in the model).

Normally practitioners may operationalise the above in the form of an 'AK' production function, such as:

$$Y_t = aK_t$$

where K is seen as a combined measure of the stock of human, physical and research capital, and a is a constant multiplier representing how much additional output can be produced from each additional unit of physical capital on average, at any particular time. In a slightly more complex form the function may be represented as:

$$Y_t = A(K)_t K_t$$

where $A(K)_t$ is the 'endogenous technological change' imparted to the economy by the stock of physical human and research capital particular to that specific country.

Thus growth in income over time depends on a country specific *combination* of all its resource factors.

¹⁶ Similar prominence is given to the importance of education and training in explaining disparities at a regional level by Bradley and Taylor Bradley, S. and J. Taylor (1996). "Human Capital Formation and Local Economic Performance." Regional Studies 30(1): 1-14. (See below).

However, like the Solow model examined above, the endogenous model adopted by the bank was unable to explain more than approximately 48 percent of the growth rate of per capita income of the average economy.¹⁷

Other endogenous models have sought to add additional variables (such as Research and Development) to a similar framework, and have unsurprisingly captured the impacts of these additions. However, an obvious danger arises of aiming to add more and more explanatory variables (most of which, intuitively will have some effect on development), given that what is being sought is a model which retains generality, whilst also allowing for the additional investigation of *specific* inputs to the production process.

This suggests that it is necessary to apply the insights of the endogenous approach to specific development issues at a lower regional, or sub-regional level, where a less generalised approach will better allow the assessment of such impacts.

2.9. Localising the general: from global insight to sub-national application

With the attributes of the models outlined above, together with strengths and weaknesses, the implication is that no single approach can offer a comprehensive explanation for economic growth or development on a national scale. It is also clear that the neo-classical approach, while intellectually elegant suffers from its ahistorical and abstract nature while the endogenous models similarly can account not for all, but only for a substantial number of factors - albeit ones which would appear to be

¹⁷ More recently in returning to the importance of culture to development in general, World Bank (1999). Culture and Sustainable Development: A Framework For Action. Washington DC, World Bank., the World Bank has explicitly argued that culture can contribute to core development objectives through:

- *Providing new opportunities for poor communities to generate incomes from their cultural knowledge and production*
- *Catalysing local level development*
- *Conserving and generating revenues from existing cultural assets*
- *Strengthening Social Capital*
- *Diversifying strategies of human development and capacity building*

increasingly important in a 'knowledge based' economy¹⁸. (Scottish Enterprise 1999: p4)

The unexplained differences in development unaccounted for by investment, human capital or relative income levels is extremely important. The unexplained aspects of the models suggest that countries with the same endowments of labour, human capital, and physical investment may still perform differently. Therefore the simple development of any of these factors on their own are inadequate to explain the complexity of modern growth. Whilst they are necessary in order to shift countries or areas onto higher growth trajectories, they are not sufficient.

In addition, given the sub-regional nature of the specific economy under study (the Gaelic economy)¹⁹, it is clear that a further examination of the insights offered by the literature on regional economic analysis is also necessary in order to best identify the most satisfactory analytical framework for understanding the dynamics of GLAC and its implications for local economic development, the context within which the economic development of the 'Gaelic Economy' takes place being that of a peripheral sub-region operating within the dynamics of the European Union's 'Single Market'.

2.9.1. The development of regional economic analysis

Like many of the larger scale models of economic development, the development of regional economic analysis - essentially a *meso* concept, falling as it does between micro and macro analysis, has in its recent history reflected prevailing orthodoxies in the wider economic sphere. In a similar manner to the situation existing within macroeconomics as a whole, the corpus of regional economic theory and practice has reflected the post 1970s crisis in the discipline. While Keynesian approaches tended to hold sway in the day to day practice of regional development in the 1950s and 60s, with a limited acknowledgement of some (long term) insights offered by the neo-classical school, the growing realisation by the early 1980s that far from problems of

¹⁸ However, for a recent vigorous critique of the concept of a knowledge based economy see Warhurst Warhurst, C. and P. Thompson (1999). Knowledge, Skills and Work in the Scottish Economy. [A Different Future - a Modernisers' Guide to Scotland](#). G. Hassan and C. Warhurst. Glasgow, Centre for Scottish Public Policy.

regional development lessening, they had in many cases deepened, has in practice led to the adoption of more pragmatic approaches than hitherto.

In practice (see below), the growing body of regional economic analysis and theory has always existed in an ambiguous relationship with the major economic orthodoxies - both neo-classical and Keynesian schools of economic development historically tending to ignore the existence of sub-national spatial economies. However, in developing a specific approach to sub-national development, models of regional growth, although in some cases retaining various degrees of allegiance to the above orthodoxies, have tended by their very nature to be impelled to confront *complexities* of local development, much of which does not easily fit into grand economic models. Thus practice (and to a lesser extent theory) has been forced to mould itself around the detailed specifics of local conditions.²⁰ For some (Bingham and Meir 1993), the importance of theory must be measured not simply by explaining or predicting, but by the usefulness of different theories as tools of reading, thinking, seeing inspiring and acting. In this way theories are essential to practice because they provide a useful frame of reference and a process for bringing some new perspectives into existence.

Chisholm (1990) identifies four general models of regional economic development:

- those based on the growing importance of globalisation, multinationals and the new international division of labour
- those based on regional skill differences
- those based on the rise of new industries (linked to the general trend from manufacturing towards services)

¹⁹ As is the case elsewhere in this thesis (see above p 20), the 'Gaelic Economy' is treated as a geographical rather than a conceptual entity. Argumentation in favour of this position can be found in Sproull A and Ashcroft B, *The Economics of Gaelic language Development* pp 4 - 6

²⁰ In the view of Keane, M. J. (1993). "Rural and Local Development in Ireland: Exploring the theory-practice interface." *Regional Studies* 27: 173-178., Local economic development is a realm in which competing theories and practices are playing themselves out in complex ways. Much of what has happened has originated in local responses to particular problems. Much of the knowledge base is idiographic; specific stories about the economic successes of individual projects or areas. *'In the limit it is a situation where everybody can, in a sense, invent their own path to development'*

- those based on agglomeration theories, often seen as a result of flexible specialisation

Although none provides an all encompassing theory of regional development - nor provides a ready made set of answers applicable to this current thesis - all share the acknowledgement that factors *both internal and external* to the local region are involved in providing a realistic picture of development dynamics.

Again, theoretically underpinning these models are several differing schools of analysis amongst which may be distinguished neo-classical, Keynesian and Marxist influences, together with other schools which focus on market segmentation or supply side issues. In the view of Feulner each of the schools can be shown to bring some insights to the analysis of regional dynamics.

"Keynesian, monetarism and supply side economics are not conflicting theories of how the economy works, but limited perspectives stressing different factors"²¹ (quoted in Chisholm 1990: p55)

Some of the main attributes of neo-classical, and Keynesian approaches to local economic development are seen in Table 2-4 below.

The insights offered by these models to this thesis, are briefly dealt with below as are several other models which do not fall within the traditional framework.

Table 2-4 Attributes of different approaches to local economic development

<i>Model</i>	Perspective	Main attributes	Implications	Strengths	Weaknesses
Neo-Classical	Long Run. Sees short run dis-equilibrium as main problem to be tackled	Adjustment of unequal regional endowments of factors of production will lead to migration of	Growth of different regions depends on current factor endowments and stage of adjustment	May lie behind some long term trends	Assumes homogeneity of factors of production, lack of barriers to migration and costless inter-migration of factors of production

²¹ Although Chisholm later also voices the opinion that each school of thought is based on premises which objectively can only be categorised as 'heroic' to a greater or lesser degree Chisholm, M. (1990). Regions in Recession and Resurgence. London, Unwin Hyman.

		labour/ capital to give identical long term returns to different regions			
Keynesian	Short Run.	Sees advantage of economies of scale and Verdoorn effect (cumulative causation)	Combine new demand, investment and 'propulsive' industries. Uses input-output analysis	Recognise uneven nature of sub-national development	Conceptualisation of regions as 'closed economies'. Possibly unrealistic short horizons. Problems of time lag in policy implementation. Ignores supply side bottleneck problems.

2.10. Neo-classical economics and regional development

In the original micro based neo-classical paradigm, specific regional problems (where acknowledged at all), were seen as a manifestation of the 'adjustment failure' of factors of production - of short term disequilibrium which would eventually give way to economic growth, if market forces were allowed to operate in an unconstrained manner in the longer term. In general the approach adopted by the neo-classical school to the differing fortunes of sub-national economies was based on a similar approach to that of their analysis of factor endowment in international trade. From this perspective, unequal regional endowments of factors of production would lead to inter-regional migration of labour and capital with the subsequent result that over time factors of production would obtain identical returns in all locations. As a consequence, at any given time the rate of growth of different regions could be expected to vary depending on the current factor endowment of the region and the stage at which the region found itself in terms of the process of inter-regional transfer of factors. In the long run economic differences between regions would be evened out and regions (as would be the case with nations) would experience long run growth, the scale of which would essentially be determined only by rates of population growth and rates of (exogenous) technical progress.

2.10.1. Problems of the Neo-classical approach

Amongst the weaknesses underlying neo-classical analysis were several major unrealistic assumptions, such as the presumption of the homogeneity of factors of production²²; the lack of barriers to migration; perfect knowledge of factor markets; and of the costless nature of inter-regional transfer or migration of such factors - the last proposition deeply unrealistic given current costs of providing modern transport and information facilities. These unrealistic assumptions subsequently led many commentators to underline that neo-classical economics in its pure form could provide few insights, if any to the realities of regional development.²³ Thus the absence of such models dealing with Scottish sub-regional development.

For other commentators, willing to relax the constricting framework of the original assumptions, the main attributes offered by neo-classical analysis included the insights into processes and phenomena operating over a longer time frame such as the dynamics behind trends in inter-regional migration of capital and labour.

With regard to the longer time frame, some studies of US inter-regional migration of labour in the late 19th to mid 20th Century (Borts and Stein 1964) seemed to offer support to neo-classical tenets regarding the migration of labour over the medium to long term (i.e. several decades rather than years) although additional evidence since the publication of these studies has tended to cast doubt on the generalisability of their conclusions to short term situations. In testing the general neo-classical thesis on labour force migration, Stillwell and Woods (Stillwell 1978; Woods 1979) revealed the complicated nature of factors behind this phenomenon. Whilst the 'narrow' view (of labour migrating solely due to factors of higher rates of return i.e. wages) was found unproven by both writers, their studies did confirm a more robust case for a dynamic

²² Interestingly also a common feature to many variants of the Keynesian approach. This weakness was highlighted by several theorists, such as Robinson Robinson, J. (1969). The Economics of Imperfect Competition. London, MacMillan. and Chamberlin who saw the imperfections in markets as being a substantial part of the problem of achieving smooth adjustment – hence the need for government intervention to regulate competition. This recognition, in fact did lead to some support for supply side measures to this end from a number of neo-classicists and Keynesians. This is seen clearly in current debates around networking and agglomeration theory in their relation to regional development Asheim, B. and M. Dunford (1997). "Regional Futures." Regional Studies 31(5): 445-455..

²³ i.e. "If we were to adopt neo-classical models in their pure unadulterated form, there would be no such field as regional economics". Richardson (1973). Regional Growth Theory. London, MacMillan.. A view shared by

of migration based on a wider set of factors which would confer net economic advantage to the migrating worker. Nevertheless, they also outline the continuing existence of countervailing evidence to the neo-classical thesis - such as the phenomena of 'distance decay' - the fact that the rate at which migration decreases with distance generally exceeds the objective cost of translocation. Together with Temple (1994: p178) they have also confirmed the important role played by factors such as age, gender, skill level etc in determining whether members of the labour force will decide to migrate or not, a key issue for this thesis (looked at in detail in later chapters).

In a more theoretical critique, human capital theorists have also suggested that interregional migration should be understood as a labour market investment decision rather than the neo-classical view of it as a labour market consumption decision. Under this approach benefits of moving would be rationally evaluated over time rather than as a response to immediate differences in relative inter-regional wage rates. Again, from the approach held by Throsby, this cannot be divorced from the issues raised regarding the impact of culture on attitudes towards one's own community and the effect of this on issues such as migration.

With regard to the long term inter-regional movement of capital however, there exists less evidence on which to judge, and the evidence which does exist suggests that although over the longer term there appears to be a flow of investment in search of higher profitability, it operates with a time lag and varies across industrial sectors. (Engle 1974)

Despite these problems, (and while offering little evidence for this), Chisholm (1990: p83) suggests that over a period of decades, the dynamics of migration will exhibit properties explicable under the neo-classical paradigm which therefore should not be ignored in attempting to build a holistic picture of processes at work.

2.11. The Keynesian approach to regional development

Although Keynes himself may have paid little attention to regional issues, economists from the Keynesian tradition have tended to categorise problems of regional decline in a similar conceptual manner to that adopted by this school when facing issues perceived to exist at a national level.

To a similar analysis of trends behind regional decline - such as the concept of insufficient effective demand - similar conceptual remedies are offered.

"Why does the rate of growth of labour, capital and total factor productivity differ between regions? The major explanation must lie in differences in the strength of demand for the region's products" (Thirwall 1980: p420)

In contrast to the neo-classical scenario which focuses on long term problems however, Keynesian approaches tend to emphasise *short run* solutions to cover gaps in effective demand at local level, with local multipliers assumed to operate and supplement any government inspired exogenously supplied injection of funds. Within this scenario, supply is assumed to rise locally commensurate with the now increased demand. Final outputs and effects on the various multipliers assumed to be present - income, output and employment, can be captured by Input-Output or time series analysis, or in a combined econometric input-output model (Schindler, Israilevich et al. 1997).

An important place in the Keynesian canon is also given to the advantages of economies of scale and the operation of the Verdoorn effect in regenerating local regions - where the virtuous circle created by the application of the most up to date technology can help bring about the phenomenon of *cumulative causation* - (in a manner not distant from Myrdal's thesis) where a process of sustainable growth may be created from the combination of new demand, modern investment, 'propulsive' industries and positive effects in terms of backwards and forwards linkages.

Implicit in the traditional Keynesian approach until the 1970's was the assumption that regions could be normally conceptualised as akin to closed economies, with a

consequent underplaying of the problems of 'leakages'²⁴ - a weakness highlighted in the wake of increasingly disappointing results in successive decades .

2.11.1. Problems of the Keynesian approach

Although Keynesian approaches tended to dominate regional development orthodoxy in the 1950s and 60s it was clear by the 1980s that serious problems still remained despite exogenous investment from central government, prompting a renewed turn towards endogenous theories of development. This was particularly the case in the Highlands, where attempts to create 'growth poles' around the Invergordon aluminium smelter, and also the Corpach pulp mill had failed to prove a sustainable means of economic development. (See Carter 1974 q.v.)

Some of these problems could be traced to a lack of realism in the assumptions underlying policy practice such as the unrealistically short horizons expected by politicians for a realistic payback from growth pole strategy, when the creation of linkages envisaged could only arise in the medium to longer term. Additional practical problems arising from time lag issues in policy implementation could also be seen however - time lags being present in the identification of the problem to be addressed by the policy; the time necessary to design the appropriate policy; the lag in the time taken for the initial effect of the policy to work through the region, followed by a similar lags with multiplier secondary effects on the regional economy (not to mention a fall in the world price for aluminium).

More important however as a reason for the lack of success achieved are some of the theoretical presuppositions underlying the Keynesian approach. For instance, in traditional Keynesian orthodoxy little thought was given to supply side problems which in practice, - through bottlenecks in production, or uncompetitive regional labour markets for instance - may prevent the achievement of the type of outcome sought by the policy instrument of manipulating demand²⁵. In addition concepts

²⁴ Indeed at a national level it is only from the early 70s that we find Keynesians such as Kaldor seriously examining the possibility of *export led* induced demand as an instrument of national policy

²⁵ 'Due to the general paucity of information at a regional level, it is extremely difficult to assess the nature and extent of existing local supply networks on a wider scale. In addition there has been little in way of formal methodology to permit an analysis of the scope for linkage development at regional level. Twomey, J. and J. M. Tomkins (1996). "Supply potential in the Regions of Great Britain." Regional Studies 30(8): 783-790.

such as local multipliers have turned out to be less powerful an arm of economic development in practice than first envisaged.

Although Keynes had reportedly operated with a estimated multiplier of 2 in his evaluations of possible policy prescriptions for the interwar economy, most sources now suggest that local multipliers can range from as low as 1.14 to 1.92²⁶. Reasons for this may include the high level of central government taxation being withdrawn from effective spending power (possibly up to 40 percent in the UK), and importantly, the increasingly open nature of local economies leading to a high level of spend on goods from outside the area, or in other terms a high rate of leakage despite exogenously increased inward investment. Also militating theoretically (and politically) against the use of Keynesian multiplier analysis (essentially 'crowding in' investment due to an original injection of funds), was the increased theoretical credibility being given to the problem of 'crowding out' - public borrowing to finance investment being seen as robbing the private sector of access to affordable funds, and thus having a negative overall effect (Bailey 1995: p 75).

Keeble amongst others has also highlighted the disappointingly low level of local sourcing undertaken by in-migrating firms many of whom have retained previous patterns of supply chains. Similarly, much of the hoped for promise of aggregation of local supply firms²⁷ subsequent to the establishment of leading edge firms operating on a 'just in time production' basis (Piore and Sabel 1984) has been unrealised in practice, the essentially modern transport infrastructure and small geographical scale of Europe meaning that sourcing can still successfully take place on a European scale rather than in-migrating firms being forced to build up new localised chains of supply. As will be shown below however, this problem may not be experienced by the Gaelic arts and cultural sector given the geographically bounded and spatially concentrated nature of its supply side.

²⁶ Archibald, G. C. (1967). "Regional multiplier effects in the UK." Oxford Economic Papers 19: 22-45, Pullen, M. J. and J. L. R. Proops (1983). "The North Staffordshire Regional Economy - an input-output assessment." Regional Studies 17: 191-200.

²⁷ For instance, the suggestion by Hood, N. (1991). "Inward Investment and the Scottish Economy." Royal Bank of Scotland Review 169: 17-32. that amongst the main attractions of Scotland to foreign companies were "the educational infrastructure, *the supplier base* (particularly for electronics)....

In practice, disaggregated analysis of regional policy targets and final outcomes has also shown evidence of a weaker effect than the literature had first envisaged. Although regional assistance was carried out on the assumption of such action influencing the migration of firms to depressed areas, evidence has indicated that in practice, much of the targeted expenditure was going to indigenous firms rather than the originally conceived in-migrating ones (i.e. a deadweight effect rather than net additionality).

Due to some of these outcomes, suggesting that regional growth dynamics were far from mechanical, much of the previously perceived strength of the Keynesian school of regional development diminished, giving renewed prominence to those proposing alternatives to both Keynesian and neo-classical approaches, such as the proponents of endogenous growth theory²⁸. As will be outlined below, this aimed to better explain the particularities of *specific* regional and local experience of growth and development, from an approach which did not assume the dominant feature to be physical capital accumulation, whether through long term neo-classical trends, or shorter term Keynesian intervention. Importantly also, this allowed the debate to move beyond approaches some of whose limitations included a lack of recognition of

²⁸ Not dealt with at length within this literature review are several 'non endogenous' alternative views such as Kondratiev's long wave theory Howard, M. C. and J. E. King, Eds. (1992). A History of Marxian Economics. Radical Economics. London, MacMillan. or Markusen's concept of profit cycles - both seeking to explain the cyclical nature of uneven development over time. Both of those, whilst conceptually interesting fail to have predictive relevance in terms of day to day practice.

The causal mechanism of Kondratiev's perceived long waves is still a matter of much debate, with possible contenders including the temporal bunching of innovations; recurrence of scarcities in the supply of primary products; the decline in profitability of a business; or periodic investment booms to replace obsolete infrastructures.

Whilst intuitively some of the possible causal mechanisms seem plausible - such as discontinuities in technology and the turn towards previously unprofitable innovations during a period of recession, little guidance can come from such theories as to whether particular regions will flourish at different periods and indeed precisely when trigger mechanisms will come into play. In addition, while such processes may have allowed the creation of geographical areas known for leading edge innovation such as Silicon Valley, older traditional areas have also shown evidence of innovation and transformation over such periods. For similar reasons, Markusen's approach Markusen, A. (1985). Profit Cycles, Oligopoly and Regional Development. Massachusetts, MIT., has not been dealt with in detail. Within this a cycle of profitability is postulated for regions, arising from new product development, firstly raising the profitability of regions, exploited at first through oligopolistic mechanisms, which then die down as new firms break through the oligopolistic barriers with the result that the industry becomes less profitable, then obsolete and is forced to move to another location where profitability can be maintained.

Apart from the questionable assumption that new products equal new industries (despite evidence of often radical alterations in existing industries' product ranges), the main weakness of such an approach is the assumption of inevitability which accompanies the mechanical application of its precepts

changes in the world economy and to include within the analysis, consideration of issues such as globalisation and the localised impact of transnational firms.

By applying the approach of the endogenous school to developments at the local level, the dynamics of such global changes and their effect on local interactions between physical capital investment, human capital development, and wider infrastructure issues can be captured. As will be seen below, such an approach proves to be useful within the Gaelic economy, due to the peripheral nature of its economic and social infrastructure, and the specific role of the Gaelic language and culture in shaping the social development of the area.

2.12. Alternative paradigms to neo-classical and Keynesian approaches – the endogenous approach to regional/ sub regional development

Recent changes in the world economy seen by some as qualitative (Lipietz 1992)²⁹ have impacted on the debate on regional development, within the context of debates on globalisation and localisation. Together with discussions of the appropriate role of different levels of governance, from the sub-national to the European, several specific themes have become current (and controversial) amongst regional development practitioners. In a similar manner to Chisholm (above), Asheim and Dunford have outlined those themes as dealing with:

- issues of convergence/ divergence
- the role of localised learning (seen as of strategic importance for endogenous regional development)
- the stimulation of innovation systems at various levels of regional governance
- the possibility of regional comparative advantage arising at these differing levels (Asheim and Dunford 1997).

Analysing the slow down and apparent halt to the process of economic convergence discernible between industrialised nations of Europe in the 50s and 60s, evidence is put forward that the persistence of high unemployment levels (and thus lack of regional growth) may be sought in the marked differences adopted by regions towards the issues of innovation, learning and the use of technology, - themes previously raised by endogenous growth theorists, particularly in their examination of the role of human capital in development.

Within these current debates however, divisions are evident regarding the extent to which the increasing trend towards globalisation, constrains the possibility of effective nation-state inspired regional or sub-regional development policies to deal with the issues identified by Asheim, Dunford and Chisholm.

Table 2-5 outlines some of the key issues identified in the current debates:

Table 2-5 Key issues identified in current debates of regional economic development

Proponent	Assertions	Predictions	Conclusions
Hudson/ Amin/ Sally	Ability of nation states to regulate activities of global corporations is very limited, given corporations focus is the corporate unit, rather than comparative regional advantage	Polarised development on a sub-national or regional level will arise, based on differences in innovation and economic growth	Innovative capacity of firms and regions is of strategic importance
Morgan/ Lazonick	Possibilities remain of growth strategies based upon regional agglomerations, innovative firms, networking and 'weak links'	Increasing domestic co-operation between firms and local authorities	Network paradigm of devolved organisations can develop policies to successfully enhance the social capital of an area
Lovering	Problem of over-generalising from limited networking success	Continuing (if limited) success of networking	Possibility of successful networking but need to recognise its limited impact
Lundval, Cooke and Morgan	Region continues to have relevance as a unit, though under threat from TNCs	Successful and sustained innovation can only take place if based on the use of locally embedded innovation and differentiation and taking account of institutional and cultural factors	Need locally embedded 'innovation' and 'differentiation'. Predicated on existence of 'learning economy'. Needs 'bottom up' approach of systematic public private co-operation

One issue raised is whether the previous 'plan versus market' dichotomy of regulation has been superseded by the increasing prominence of transnational corporations (TNCs) which it is argued, have altered the structure of global production. In this view, shared by Hudson and others. (Amin 1993; Sally 1994; Hudson 1997), the ability of nation states to regulate the activities of global corporations is severely limited, given that the range of economic activities undertaken by such corporations, is based upon their own dynamic integration as a unit, rather than geographical considerations of production based on the comparative advantage of natural resources.

One prediction of this approach is that such a shift will lead to polarised development on a sub national regional level and increased differentiation, based on differences in

²⁹ "We are today in one of these open periods when what is in contention is not the fairest and most efficient way to apply an agreed model, but the actual definition of a new development model"(Introduction p xi)

innovation and economic growth between successful and unsuccessful regions, thus making the innovative capacity of firms and regions of strategic importance in determining regional futures.

2.12.1. Innovation through agglomeration and the use of social capital

Differences exist as to whether the possibilities remain of growth strategies based upon successful regional agglomerations (industrial districts) of innovative firms, based on networking, new forms of co-ordination ('weak links'), and co-operation. Those in favour of this approach quote areas such as the 'Third Italy' and Baden-Württemberg as sources of inspiration. Morgan, for instance restates the 'central status of the region in contemporary capitalist development' due to the increased importance of 'untraded interdependencies' found in such areas. (Morgan 1997). Within this, the 'network paradigm' of devolved organisations such as regional development agencies can develop policies to successfully enhance the social capital of an area. From a complementary perspective, Lazonick argues that domestic co-operation between firms and local authorities in achieving international competitiveness has to replace domestic competition in order to allow the continuous innovation which must be at the heart of competitive advantage. (Lazonick 1993)

This approach however, is seen as 'fundamentally misconceived' by others such as Hudson who argues that the future of economic development lies increasingly in high volume production and mass customisation - leading to a growing concentration of corporate power, and R&D in existing core regions (Hudson 1997).

Some commentators, while acknowledging the potential of the 'network paradigm' and such regional initiatives are critical of over generalisation from essentially limited groups of dynamic enterprises, which, while fulfilling certain success indicators, still account for only a small percentage of either GDP or employment. (Lovering 1996).

While arguing for the continuing relevance of the region as a unit, Cooke and Morgan do agree however, that such areas are continually under threat from aggressive

strategies of TNCs, operating on the basis of flexible specialisation, and also from low wage countries which are now using high technology (Cooke and Morgan 1994).³⁰

As a strategy to combat the tendency to argue for a 'low road' to development (i.e. a policy of weak competition, based on price competition and reduced wages and working conditions), an alternative scenario based on the use of locally embedded 'innovation' and 'differentiation' can then be put forward. This hinges on the existence of a 'learning economy'. In using this concept, it is argued that successful and sustained innovation can only take place if locally embedded, and taking account of institutional and cultural factors. (Lundvall and Johnson 1994). As Morgan emphasises, however, one of the most difficult and challenging questions for studies of economic development is to what extent peripheral regions can innovate (Morgan 1997). To ensure a sustainable level of innovation and co-operation can be created, a 'bottom-up' theory of 'interactive innovation' should be promoted, based on systematic public-private co-operation and using policy instruments at the regional level. Within this perspective proponents state the importance of localised, 'codified' knowledge based on close networking (i.e. producer-user' interaction).

Whilst the evidence seems to favour the *approach* of Lundvall and others in promoting innovation, the particular difficulties found in under-resourced and peripheral areas such as the Gaelic economy are under-developed within this argument. Neither do they consider in detail the specific question of what exactly a richness of artistic and cultural resources can provide against the background of decades of under investment in infrastructure and other physical elements within the community. To consider that needs an examination of the nature of business within the specific area under investigation.

2.12.2. Putting the business into local economic development

Whilst theorists such as Asheim and Dunford have clearly indicated current pre-occupations within literature on regional economic development and the strength of an approach which moves from an ahistorical pre-occupation with issues such as national saving and investment rates to an acknowledgement of the specifics of each

³⁰ An example given is the low cost of sophisticated computer programmers on the Indian sub-continent

region or sub-region, it remains necessary to further investigate several other areas of literature in order to achieve a rounded analytical approach to the specific questions raised in the current thesis. These are sections of the literature regarding the role of small businesses (Small and Medium Enterprises - SMEs) and similarly, sections of the literature on entrepreneurship and business start-ups (which follows in many ways directly from the discussion of locally focused endogenous theory). Not all of the literature in these areas is relevant however, and neither are the areas totally congruent. Finally the economics of language and culture, which underpins many of the issues raised within minority language communities such as the Gaelic speaking communities of the Western Isles and Inner Hebrides will be investigated.

2.13. The significance of small business in perspective

The importance of SMEs as a positive force in the UK economy was first indicated in the Bolton Report (Bolton 1971). Currently the importance can be seen by the 200,000 new firms estimated to be created each year in the UK³¹. Burns (1996) has outlined the contemporary contribution of SMEs to the British economy with approximately 3 million small and medium firms operating at present despite high levels of births and deaths³². In 1989, the 97 percent of UK businesses employing under 20 people accounted for 35 percent of non-government employment and 17 percent of national output. In addition, the share of total employment of firms employing less than 100 people in 1986, was 98.9 percent.

The role and importance of this sector within economic development is reflected within the literature - e.g. for the OECD countries and EU member states de Lind van Wijngaarden and van der Horst (1986) and the OECD (1996), for the British economy Ganguly (1985), Storey and Johnson (1987), Cross (1983) and Keeble (1997). From a

³¹ Birley, S. (1996). Start Up. Small Business & Entrepreneurship. London, MacMillan.. But for a contrary view comparing job losses of large firms, see TUC (1997). The Small Firms Myth, TUC Social and Economic Affairs Committee. and Kirk, C. (1994). Small Firms, Birth Rates and Jobs, Glasgow Caledonian University.

³² Burns, P. and J. Dewhurst (1996). Small business and Entrepreneurship. Basingstoke, MacMillan Education. For instance 50 percent of small businesses deregister for VAT within the first 5 years Burns, P. (1996). Entrepreneurship & SMEs. Small Business & Entrepreneurship. London, MacMillan.

rural perspective this has been dealt with by amongst others Grindley (1997; 1997a) and North and Smallbone (1995; 1996)

Of specific interest to this thesis are estimates that more than two thirds of businesses consist of 1 or 2 people (often spouse) and that 75 percent of the rest employ less than 10 people³³ This situation prevails to an even greater extent in the area of the Gaelic Economy where the vast majority of enterprises are 'micro-enterprises' - i.e. consisting of 10 or fewer employees, and where occupational pluralism is a common factor in employment (Rennie 1993a). Unfortunately, such figures cannot clearly differentiate between 'entrepreneurial firms' (see below, page 66) and 'lifestyle' firms - more concerned with the survival or maintenance of a lifestyle rather than with growth or expansion, a lack of differentiation which is acknowledged to cause difficulties for policy prescription. However, for this thesis *all types of business* are of interest.

Having stated the numerical importance of this sector, difficulties do exist in clearly elaborating the performance of firms within it. Conceptual issues also exist of how 'high performing' firms should be measured, i.e. whether employment created, profits, turnover or financial assets should constitute the significance of firms in such a sector. Additionally the whole concept of 'high performing' may depend on how inhospitable the environment itself is. Performance seen as average by one set of criteria, may in fact be above average if it takes place within an inhospitable environment.

Opinions differ as to the importance of small and medium business in terms of dynamism. Storey (Storey 1994) states for example that within a sample of 20 new firms, possibly only 3 - 4 will be responsible for the majority of employment growth over a period of time. This is contested however, by Reid, who claims:

³³ibid p.2

"One of the most notable aspects of small business enterprises is that they are typically subject to rapid growth - sales, assets, employment, with full-time employment almost doubling" (Reid 1993)

Such difference in statistics indicate the difficulty of generalising over what is a highly complex interaction of factors, both internal and external to any newly created firm.³⁴

In terms of positioning the small business sector in relation to the profitability of larger enterprises, some commentators e.g. Naisbitt (1994) propose a 'Global Paradox' brought about by an increasing role for small-businesses through their occupation of an incrementally growing number of niches³⁵ with 'economies of scale giving way to economies of scope'. In line with this, Porter(1980) suggests that small firms able to identify niches can eliminate profitability differentials between themselves and the major firms in their own market.

However, changes in the nature of opportunities available to SMEs may also lead to changes in the problems their owners/ managers face, and the tasks they must perform. In addition, as Porter points out, small businesses wishing to maintain or expand market share must adopt a competitive strategy - an owner or manager must adopt business planning methods and analyse competition and the market before deciding on the best strategy to exploit an opportunity and achieve growth.

Deakins outlines several of the issues which will typically effect the growth of an SME, and which will need a particular mix of managerial and business talent to successfully engage with. These issues include:

- Whether a firm exports
- The nature of the sector in which the firm finds itself
- The nature of enterprise support
- Profitability and attitudes towards re-investment

³⁴ The specific difference between Storey's figures and those of Reid appear to arise from the fact that unlike Storey, Reid was dealing with a database of relatively young start up firms (the average age of his sample being 3.5 years) Deakins, D. (1996). Entrepreneurship and small firms. London, McGraw-Hill..

³⁵ "The bigger the world economy, the more powerful the small player"(Quoted in Burns, P. (1996). Entrepreneurship & SMEs. Small Business & Entrepreneurship. London, MacMillan.

- The age of firm and part of life cycle within which it is currently operating
- The economic environment against which the firm operates
- The firm's ability to network

It will be seen from these points above that growth in small firms is a complex process, which does not necessary operate as a linear or continuous process, (and clearly cannot be ascribed solely to capital investment). Growth at a firm level therefore occurs from a complex interplay of factors that will include variations in market and managerial elements. Only an actual study of the industry sector in question (see Chapter 5 on the GLAC supply side), will be able to capture the particular elements at work at any time.

2.13.1. The birth of the firm as a process

Despite the high death rate of firms suggested by VAT de-registrations³⁶, the birth process of the firm should firmly be seen as a long term question, depending on many issues which may take several years to impact³⁷. Such processes depend intimately upon a whole range of issues, which themselves change with specific developments of the economy and of its different sectors. Peripheral areas particularly may be vulnerable to economic decisions taken elsewhere, or to the prevailing economic climate determined elsewhere. Within the locality, as elsewhere, initiatives which are successful at one time may not be able to be re-created if the timing or environment is wrong³⁸.

Confidence within the business community regarding the future economic or social prospects of an area can also greatly impact on outcomes, uncertainty about the economic outlook being seen by some as having a major role in whether SMEs develop in a way which would allow them to grow into larger businesses (Storey and

³⁶ A high proportion of new firms fail within 3 years of starting up. According to Deakin, in the UK, 30% of new firms cease trading by their 3rd year, 50% by their 5th, with only a small proportion growing to employ 50 workers.

³⁷ "Starting a business is not an event, but a process which may take many years to evolve and come to fruition" Birley, S. (1996). *Start Up. Small Business & Entrepreneurship*. London, MacMillan.

³⁸ For instance Bill Gates ability to create the Windows operating system and the Microsoft Office package, fundamentally changed the nature of business use of IT, therefore locking subsequent software designers into a framework set by Microsoft. The ground for such path-breaking initiatives (by Gates or others) no longer exists in the same way, due to the contemporary pre-dominance of the Microsoft in today's business.

Sykes 1996). Again the importance of such environmental (and infrastructural) factors is seen by the fact that clearly some regions (traditionally more economically buoyant than others) are more favoured than others in establishing successful small businesses and entrepreneurs³⁹. Confidence within the business and wider community may also have an impact on attitudes towards 'risk of failure', seen by Storey and Sykes as a key factor in negatively influencing any 'start-up' decision. Deakins refers to this negatively with reference to the UK where failure is seen as a greater discouragement to future activities when compared to the situation in the USA where attitudes to initial failure are seen as less condemnatory. The opprobrium surrounding failure also appears to be of particular importance in rural parts of the Gaelic economy where others have commented that a failure cannot be hidden from a small community (Shucksmith, Chapman et al. 1996:p232)

Like other questions the issue of confidence within local communities (and subsequently within the indigenous business community) regarding their social and economic future can be assumed to be a long term issue, the changing of which will be a process rather than a single act.

2.13.2. Business start-ups and entrepreneurship

One measure of business confidence is the number of new businesses, or business start ups which renew the economic community in any local area.

Start up decisions are thus increasingly the focus of economic literature (i.e. (Scottish Enterprise 1993) as is the concept of entrepreneurship and why individuals are willing (or not) to engage in new economic activity. However, having stated this, it is important to be aware of the differences between small business starts ups and 'entrepreneurship' as a concept - given the caveat about 'lifestyle' (as opposed to 'entrepreneurial') firms made earlier. Regarding this, Binks has pointed out that ill thought out 'enterprise packages' which place together entrepreneurs, economic

³⁹ The new firms and entrepreneurs which are successful are predominantly located in the SE of England. It may also be the case however, that the development of interfirm networks are more advanced in these areas than in other regions of the UK.

development and employment creation under the one heading, fail to make this distinction and ignore contradictory aspects of the *separate* elements involved. i.e.

“Many policies purporting to encourage entrepreneurship can be viewed simply as attempts to create additional employment. This may be counter productive in terms of economic development” (Binks and Vale 1990: p19)

Within the Gaelic economy, the majority of smaller firms are undoubtedly lifestyle firms, given the necessity of pluri-activity. This is even more the case within the artistic and cultural sector, where reflective of the artistic and cultural sector elsewhere, the industry has a predominance of part-time workers (Throsby 2001:p 121). However, the unfulfilled demand for GLAC products and services is such (see Chapters 5/6) that the opportunity also exists there for entrepreneurial activity.

2.14. Entrepreneurship as a concept within the economics tradition

Although the question of entrepreneurship has a long pedigree in economics literature, the term first being used by Cantillon(1755) in the eighteenth century, interest in entrepreneurship as a concept has varied with the prevalence of different economic schools of thought, and also in relation to the political climate of the day. As Bhidé has pointed out (Bhide 2000: p7) although the main entrepreneurial functions were incorporated (or rather subsumed) to a degree within the development of microeconomic theory in the early neo-classical era (Walras, Marshall, Fischer and John Bates Clark, all acknowledging aspects of the role of the entrepreneur), and then came to prominence with Schumpeter and Knight in the mature neo-classical era (1914 - 1930), from the 1930 period until the early 70's however, the role of the entrepreneur suddenly and rapidly disappeared. In the words of Barreto(Quoted in Bhide 2000: p7)

"Entrepreneurial considerations, no longer played a fundamental role in the orthodox theoretical explanations of the market system.....the word 'entrepreneur' was sometimes used, but it lost any special meaning...the fruitful theories of innovation, uncertainty bearing, co-ordination and arbitrage were downplayed or totally neglected"

Behind this apparent disregard of the entrepreneur as an entity were several issues. Firstly, the critical assumptions seen to be behind the functioning of a modern economy, such as perfectly formed and rational decision making, gave no role to the

classical entrepreneurial functions of co-ordination, arbitrage, innovation and uncertainty bearing. Again, in the words of Bhidé:

Basic microeconomic theory involves a trade off. It specifies precisely the equilibrium that leads to an optimal allocation of society's resources....the theory does not however attempt to explain how the equilibrium changes. The innovative activity of entrepreneurs analysed by Schumpeter...lies outside the model. (Bhide 2000: p5)

A possible reason for the renewal in interest in entrepreneurship from the early 1970's, was the business and academic community's loss in confidence in the omnipotence of large corporations - whose performance had seemed to relegate the role of the entrepreneur into the realms of economic history in the 1950s and 60's. This became badly shaken by the economic downturn of the 1970s, with interest in entrepreneurship once more being mirrored in the economic literature and in academic departments, in an aim to reconcile what had become a theory / reality mismatch.

Having stated this, it must also be recognised that the field of entrepreneurial studies is one where there remain important theoretical issues still to be resolved.(Hébert and Link 1982:p106) These include the concept of entrepreneurship itself⁴⁰, the absence of a clearly defined entrepreneurial population to investigate, differentiation for instance between the generic entrepreneur and the generic manager being imprecise⁴¹ and the lack of empirical work on entrepreneurial motivation (Bhave 1994). In addition, differences remain as to how entrepreneurial events themselves can adequately be explained.

According to Bygrave (1993) -whose approach to entrepreneurial training influenced the development of this field:

⁴⁰ "Entrepreneurship is a slippery concept, not easy to work into formal analysis because it is so closely associated with the temperament or personal qualities of individuals" Penrose, E. T. (1968). The Theory of Growth of the Firm. Oxford, Basil Blackwell, Storey, D. and N. Sykes (1996). Uncertainty, Innovation and Management. Small Business & Entrepreneurship. London, MacMillan.

⁴¹"A well defined entrepreneurial population does not exist, and research findings are difficult to compare" Brockhaus, R. H. (1980). "The Effect of Job Dissatisfaction on the Decision to Start a Business." Journal of Small Business Management **18**(1): 37 - 43.

“If researchers could develop a theory to explain entrepreneurial events, then they would have the key that unlocks the mystery of entrepreneurship”

One of the problems which confronts the researcher however is that in this diverse field, there are differing opinions as to what constitutes an entrepreneurial event itself i.e. according to Bygrave it is:

“The creation of a new organisation to pursue an opportunity”

Yet, others have insisted on a more bounded definition - e.g. the chance of realising super-profit (together with whether the event itself is ‘innovatory’) being seen as critical to whether an event is ‘entrepreneurial’⁴²

The emphasis on the innovator owes most to Schumpeter (1934), (see below) who insisted on the temporary aspect of entrepreneurial events and stresses the disequilibrating effect of enterprise⁴³, whereas commentators before him tended to concentrate on aspects of the entrepreneur himself and his/ her role in bringing about equilibrium.

Yet others regard the entrepreneur more as either an intermediary or co-ordinator.

In a useful survey of the literature on entrepreneurship, Deakins provides a categorisation of theories of entrepreneurship as lying within three general areas:

- The contributions of writers on the role of enterprise in economic development and economic theory
- Psychological trait approach based on personality traits
- A social behavioural approach (Deakins 1996: p7)

The contributions of the main writers on the role of enterprise can be seen in Table 2-6 below:

⁴² “An unrehearsed combination of economic resources instigated by the uncertain prospect of temporary monopoly profit” Binks, M. and P. Vale (1990). Entrepreneurship and Economic Change. London, MvGraw Hill.

⁴³ “The entrepreneur initiates change and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium”

Table 2-6 The entrepreneur as seen by prominent economic theorists

	Attributes	Why Exists
Kirzner	Someone who is alert to profitable opportunities for exchange (intermediary or 'middleman')	Due to imperfect knowledge
Schumpeter	Innovator - brings about new technology etc	'Capitalism has within itself a perennial gale of creative destruction' (Schumpeter 1942: p84)
Knight	Calculated risk taker	Due to uncertainty which arises surrounding change
Shackle	Creative and imaginative - i.e. imagines opportunities as opposed to perceives them (Kirzner)	Due to potential which exists compared to resources available
Casson	Has different skills from others. Entrepreneur makes judgement, co-ordinates scarce resources	Co-ordinates demand and supply under uncertainty

2.14.1. Innovators or risk takers

Within the literature above, the two main themes which have achieved most prominence are the Knightian approach, stressing the entrepreneur as risk bearer and his/ her role of reducing uncertainty, and the Schumpeterian approach, focusing on the question of innovation, with the entrepreneur as the initiator of new systems of technology and production. Other approaches however, are those of Kirzner, highlighting the role of the entrepreneur as 'intermediary', whilst Casson emphasises the co-ordination role. Shackle's approach is similar to that of Kirzner, except that whereas Kirzner's entrepreneur sees or discovers existing opportunities, Shackle's on the other hand, helps imagine them, and thus create them.

Within the framework of this thesis - the Economic Impact of GLAC - all elements have some bearing - the possibilities of new products produced in a Schumpeterian manner; the better marketing of existing products through the perception of a profitable opportunity for exchange (Kirzner), the taking of risks in these ventures (Knight); understanding the role of culture and thus imagining/ creating new opportunities (Shackle) and better co-ordination of scarce resources (Casson).

In examining why individuals choose to play the role of entrepreneur, one strand of the literature has examined the psychological aspects of the entrepreneur, and amongst other issues, raised the question of whether entrepreneurs are 'born' or

'made'. This is of importance to this thesis, since if entrepreneurs are 'born' rather than made, the role of policy promoting entrepreneurship is severely diminished.

2.15. Psychological aspects of the entrepreneur

Within this approach, some studies of entrepreneurship have concentrated almost entirely on motivations e.g. (McClelland 1961);(Rotter 1966), where attempts have been carried out to study the 'need for achievement' of entrepreneurs, or the possession of a strong internal 'locus of control'. Hornaday and Aboud(1971) also believed that entrepreneurs scored lower on a 'need for support' scale than the general population.

However, as McClelland himself indicated, many of the traits epitomising this approach to entrepreneurship can be developed through training and experience, and no evidence exists to show that entrepreneurs are 'born' rather than made. i.e. the groups which achieved his achievement motivation education, demonstrated a larger supply of entrepreneurs than his control group which had not.

Backing for this more circumstance determined position comes from Vesper (1980)who found a correlation between success in new ventures and both previous experience in the industry and education. Similarly Ronstadt (1983), in examining why people did not become entrepreneurs, found this to correlate with lack of experience in industry, lack of education, and lack of successful role models in the close family or acquaintances. This may have particular relevance when examined against the models of high traditional migration, lower educational qualifications and business opportunities in the rural areas under study.

Vesper posited the issue of entrepreneurship taking on different characteristics according to context - i.e. different attributes were held by entrepreneurial individuals in different 'entrepreneurial' situations. An example of this was that the value orientation of a speculator was distinct from that of a solo small business owner. This was backed up by Gasse(1977) who found that different value orientations were more effective in specific industrial environments. Schwer &

Yucelt(1984) found that how people saw themselves - (i.e. their value orientation) affected their risk taking propensity, risk being a generally accepted attribute of entrepreneurship. i.e. Long(1983), and Storey(1996). Others e.g.(Hoy and Hellriegel 1982; Solomon 1982; Storey and Sykes 1996) also found entrepreneurs to be short term oriented.

As will be shown below, (Chapter 6), the effect of the consumption of GLAC products and services is to increase the general feeling of confidence in the local community within the Gaelic economy. Implications for this are further investigated in the concluding chapter (Chapter 7).

Having considered the above studies of the psychological aspects of the entrepreneur, an important caveat must be added however - that most were on those who had already become successful entrepreneurs or were potential entrepreneurs, with few comparative studies on the attributes of 'failed' entrepreneurs, or on the successful entrepreneurs before they became entrepreneurs, and any roles they may have previously played.

2.15.1. The inadequacy of the psychological approach

While the psychological approach still retains an important body of support in this field, the consensus overall in the literature reflects the belief that a generic psychological profile of the entrepreneur does not exist, and that:

"it is possible for almost anyone to be an entrepreneur if the appropriate conditions exist. There is not a single type of entrepreneur" (Brockhaus and Horowitz:p40)

There also appears to be a growing consensus that if such traits of the 'generic entrepreneur' do exist, we do not yet have the psychological instruments to discover so at present(Brockhaus and Horowitz: p89)

2.15.2. External influences and the general business environment

A third strand in the literature (from several research traditions) has examined the effect of external factors on whether individuals will be encouraged to initiate entrepreneurial events. Issues seen as crucial to entrepreneurship and business start

ups have included the question of role models, previous experiences, and (most importantly when dealing with peripheral economic areas), the availability of resources. Given the failure of the capital market, for instance in much of the Highlands and Islands,⁴⁴ this takes on great relevance for this thesis.

Commentators such as Vesper (1980) and Cooper (1973) have outlined the positive correlation between success in a new venture, and the entrepreneur's previous experience in the same industry.

Brockhaus(1980) has outlined the role of job dissatisfaction as a spur to setting up in business for one's self, while the importance of role models of successful entrepreneurs in the family and close acquaintances have been noted by Litvak and Maule (1971), and particularly for women, by Hisrich and Brush(1984). Petrof (1981) also found that environmental factors played a major role as to whether individuals developed into entrepreneurial roles. Again longevity of traditions within the Gaelic economy suggest that such environmental factors do indeed have an impact. However, intergenerational changes in attitudes towards the economy and community are also shown within the data gathered and are analysed later within this thesis.

Cooper (1981) categorises reasons for starting an entrepreneurial venture into three areas which he refers to as:

- 'antecedent influences'
- the 'incubator organisation' (i.e. the firm in which the entrepreneur has previously worked);
- 'environmental factors'

the latter point including economic conditions; accessibility/ availability of venture capital; examples of entrepreneurial action; accessibility of customers etc.

Environmental factors are also stressed by other writers such as Freeman (1982) who stresses the availability of economic resources as being crucial, these resources being

⁴⁴ HIDB (1989). Public Infrastructure and Entrepreneurship - the case of the Scottish Highlands and

seen to include venture capital, land, transport facilities, supporting facilities and a technically skilled labour force - again issues raised by Highlands and Islands enterprise (HIE) as rationale for their activities, and ones which are raised as crucial by business in the Gaelic economy.

Birley and Westhead(1993) identify seven reasons for starting a business, including :

- *a need for approval*
- *independence*
- *personal development*
- *welfare considerations*
- *tax reduction and indirect benefits*

Welfare considerations and economic imperative have recently been raised by Hunter and other writers on the crofting community in referring to the 'absolute necessity' of occupational pluralism and self employment in these areas, the vast majority of which are found within the 'Gaelic Economy'.⁴⁵ This is an area which is examined further below.

While most of the literature has been concerned with what brings about an increase in 'entrepreneurial events' others have sought to examine elements which sustain such ventures once begun. From this wider perspective, Kuratko et al examined 16 'goals' which motivated entrepreneurs, and found them to be reducible to 4 factors:

- *extrinsic rewards;*
- *intrinsic rewards;*
- *family/personal security;*
- *independence/autonomy.*

They concluded by supporting the belief that many entrepreneurs are motivated by and sustained through other means than simply money, and that the level of financial risk taken could not be explained solely by profit opportunity. (Kuratko 1997: p31).

Islands. Conference on Enterprise and Employment Creation in Rural Areas, Paris, OECD.

⁴⁵Shucksmith, M., P. Chapman, et al. (1996). Rural Scotland Today- the Best of Both Worlds? Aldershot, Avebury.

They also asked whether there were events 'real and/or psychological, which cause an entrepreneur's goal set to change over time' and answered this positively. Again this suggests the importance of cultural outlook and issues such as community confidence and self image.

2.16. The importance of local networks for enterprise and innovation

In a similar vein to the approach of Asheim and Dunford in considering the importance of networking at a regional level, Birley, quoting Aldrich and Zimmer, raises the issue of networking in relation to entrepreneurship and points out the need for strong social networks if entrepreneurship is to be encouraged:

"Voluntary associations, trade associations, public agencies, other social units increase the probability of people making connections with one another...."⁴⁶

In general, it is accepted that networking is becoming a more important element locally in helping determine both the success of small firms, but also their strategy, particularly in relation to innovation (and thus 'Schumpeterian' action). Within this the interactive model of innovation is seen as replacing 'linear-models' of development, either based on 'science-push' or 'market-pull'. Here, emphasis is put on complex patterns of intra and inter-organisational links, seen as essential elements in the innovation process.⁴⁷

In addition, network analysis is seen as a powerful way of describing and analysing sets of units, by explicitly focusing on their inter-relationships, and the context in which they are 'embedded'. Having stated this however, Jones goes on to acknowledge that:

"Informal networks are extremely important but very hard to classify and measure"

and states that social networks include *family activity, that of friends and co-workers, as well as broader forces such as religion, gender and ethnicity*. It is clear that culture and language also fit in to these categories of possible social networks.

⁴⁶Birley, S. (1996). Start Up. Small Business & Entrepreneurship. London, MacMillan.

⁴⁷ "It is now widely acknowledged in the innovation literature that networks are central to the effective management of new technologies" Jones, O., S. Conway, et al. (1998). "Social Interaction and Innovation networks." International Journal of Innovation Management 2(2 (Special Issue)): 123 - 136.

Whilst acknowledging the growing benefit of 'virtual networking' through the use of the World Wide Web, Bower concludes that it is important not to disregard the significance of personal contact as a mode of communication (which can be extended and enhanced, but not fully replaced, by technical communication, and the importance of physical proximity and the contribution of invisible, uncodified knowledge to business success. (Bower 2001:p5)

2.16.1. The contribution of uncodified knowledge and culture to local development

As this literature review has outlined, there appears to be increasing recognition of the need to acknowledge the importance to economic development of *local specifics*, in terms of existing resources, culture, human capital, present in the community itself, and the ability of this to be tapped into through co-operation and networking where possible. Intimately connected to the specifics of the Gaelic economy are questions of the Gaelic language and culture as well as the issues of existing economic infrastructure raised above.

Throsby (Throsby 2001: p23) seeks to codify the distinction between *economics* and *culture* in order to better evaluate the often reciprocal interactions between the two. Arguing that the 'economic impulse' is individualistic, and that the 'cultural impulse' is collective, he examines how traditional economic aims (of growth, development, etc) can best be served by an understanding of this distinction.

Throsby's proposition regarding the 'economic impulse' asserts firstly that there is behaviour which can be termed 'economic' and which reflects individual goals and which is portrayed in the standard model of an economy comprising self interested individual consumers seeking to maximise their utility, and self interested producers seeking to maximise their profits. Distinguishable from the above, however is 'cultural' behaviour, which reflects collective as distinct from individualistic goals, and derives from the nature of culture as expressing the beliefs, aspirations and identification of a *group*. Thus the cultural impulse can be seen as the desire for a group experience or for collective production or consumption that 'cannot be fully factored out to the individuals comprising the group' (Throsby 2001:p13). He

suggests that culture can affect the way that individuals in the group think and act, and will also have a significant effect on the way the group as a whole behaves.

Culture may thus effect economic outcomes for such a group in three broad directions:

- Economic Efficiency
- Equity
- The economic and social objectives the group pursues.

Economic efficiency will operate via the promotion of shared values within the group. If such values are conducive to more effective decision making, more rapid innovation and more adaptive behaviour related to change, the economic productivity and dynamism of the group will be likely to be positively impacted.

In relation to equity, Throsby suggests different cultures reflect different moral principles of concern - leading to different attitudes to issues of (for instance), intergenerational equity.

With regard to economic and social objectives, he suggests that criteria such as 'successful' and 'unsuccessful' may be different between members of such a group and those who are not members.

This approach is linked to the issue of networking and common action. In examining the actions of both consumers of Gaelic artistic and cultural goods, and the suppliers of such goods, this thesis evaluates (below) whether there is a perceived group attitude to the role of Gaelic goods and services within the Gaelic economy, and the implications of this for future economic development. In evaluating whether such a group can be shown to exist, the thesis also draws upon literature from the area of the economics of language

2.17. The economics of language

Although this body of thought is comparatively new - the first works dating from 1965, it is a growing (though at present, still small) area of research and adopts a theoretical approach to language based on many of the concepts of the economist:

“The economics of language refers to the paradigm of theoretical economics and uses the concepts and tools of economics in the study of relationships featuring linguistic variables; it focuses principally, but not exclusively on those relationships in which economic variables also play a part” (Grin 1996a)

Surveys of this field are found in (Vaillancourt 1983; 1989) and also in Grin (1990; 1994a; 1996a). Grin also offers a useful definition of what a 'minority' language is, based on a combination of factors including percentage of speakers in a given geographical area, the number of major competing languages within that area, and the degree of linguistic difference between minority and majority languages.⁴⁸

There is growing awareness of the possible stimulating effects that minority languages can have on the local economy in peripheral regions of Europe, and some attempts are now being made to integrate language economics with other perspectives, such as the literature on culture-conscious management see e.g. Price (1994) However, empirical research at a regional/ sub-regional economic level is necessary in order to understand the many ways in which language may affect business and consumption decisions has been limited until now. One aspect of this thesis has therefore been aimed at examining factors behind the supply and demand characteristics of language specific goods and also at examining language attitudes as a determinant of consumption behaviour (see below Chapters 5 and 6).

Much of the research in the field of the economics of language is empirical and covers areas including language, employment income and socio-economic status; theoretical models of language based inequality; language and nationalism; second language acquisition and socio-economic status of immigrants in the US⁴⁹; language spread, maintenance and shift ; language and economic activity; intergroup communication; selection, design and evaluation of language policies.

⁴⁸Specifically the percentage of speakers in a given area will be less than 50 percent, the number of competing languages will normally be one, and the minority and majority language will not be mutually intelligible. Grin, F. (1990). "The Economic Approach to Minority Languages." Journal of Multilingual and multicultural development 11(1 & 2): p 153 - 173.

⁴⁹ Given the issues for instance regarding the rights to bilingual education raised by the growing percentage of Hispanic Americans in states such as California.

Not all of these areas are directly useful to the present study, but several areas do offer helpful and appropriate insights - language use and spread, the economic causes of language shift, and minority language advertising as a marketing tool.

2.17.1. Language use and spread

For the purpose of this thesis, the rational choice by individuals to use a minority rather than majority language is of interest in its implications for subsequent demand for Gaelic related goods and services.

Grin (1990) approaches the question of minority language use from the standpoint of a constrained utility maximising model. Taking the situation of the Welsh language as an example, he posits the following factors as crucial in determining an individuals choice of Welsh:

- the number of goods in the minority language available
- the geographical isolation of the language area
- the language used in advertisements
- governmental attitudes to the language
- the general exposure which individuals have to the Welsh language.

He also considers conditions for successful incentive schemes aimed at the promotion of Welsh and other minority languages concluding that key to overall success is a 'positive image' for the minority language. He argues that against this background, steps can be taken to improve the situation of the minority language, including subsidies to certain minority language goods, increasing incomes in minority language areas and boosting minority language goods available to those with the increased incomes. The theme of a positive image for the Gaelic language (especially for youth) is one which currently finds an echo in much of the literature written by Gaelic promotion agencies.⁵⁰ It has also been an key area for research in constructing

⁵⁰ Lingard, R. A., R. N. Pedersen, et al. (1993). *Iomairt na Gàidhlig - A strategy for Gaelic Development in the Highlands and Islands of Scotland*, Highlands and Islands Enterprise, Johnston, R. (1994). *The Impact of Current Developments to support the Gaelic Language - Review of Research*, Scottish Centre for Information on Language Teaching and Research, CNAG (1997). *Inbhe Thearainte dhan Ghaidhlig - Secure Status for Gaelic*, Comunn na Gaidhlig.

this thesis, given the almost total lack of information as to current attitudes until present.

Vaillancourt (1996) examines whether there are monetary returns resultant from an individual's choice of language and offers evidence (looking at Quebec) that bilingualism has higher monetary returns for native speakers of French (the majority community in Quebec) than English. This implies that there is a higher payoff to investing in English (the minority language) rather than French as a second language. A major factor within this conclusion appears to be the economic opportunities opened up by the adoption of the minority language. This also finds parallels in the conclusions of Williams (1978) - albeit dealing with the situation in Wales where like most Western industrialised societies, few *unilingual* speakers of the minority language remain. Williams notes the decision of parents within Wales to send their children to bilingual schools due to the perceived increase in economic opportunities offered by learning the minority language Welsh (although he also notes the bounded nature of these possibilities, linked as they are to a geographically limited, narrow sector of jobs). A more recent article by Adburghan(1997) confirms the growing recognition of opportunities opened following the passing of the Welsh Language Act.

There has been no comparable study of Gaelic parents undertaken although MacNeill (MacNeill 1993; MacNeill 1993) provides an overview of the nature of provision of Gaelic in Scottish Schools and Johnston (Johnston 1994) reviews general research in the field including that pertaining to the effects of bilingual education. The more limited nature of Gaelic medium education available within the Gaidhealtachd should also be noted, although Sproull (1993:39) found evidence that Gaelic medium school children believed bilingualism offered them advantages over unilingual English speakers. A general case for the advantages of bilingualism in terms of 'world experience' and culture is made by Baker (1996). Again for the purposes of this thesis, extensive data was gathered regarding parents attitude to bi-lingual education for their children, and the possible relationship which this has with their consumption of GLAC goods and services.

A more recent study by Drinkwater and O'Leary (1997) has posited a correlation in Wales between the ability to speak Welsh and the likelihood of experiencing an unemployment rate lower than that faced by unilingual speakers of English. (Drinkwater and O'Leary 1997:p589). The paper suggest several possible reasons for this observation, including assimilation, positive discrimination in favour of Welsh speakers/ bilinguals and differences in characteristics between Welsh and non-Welsh speakers. No similar study has of yet been undertaken in relation to Gaelic speakers in the area of the 'Gaelic economy'⁵¹, though as this thesis will demonstrate, there now exists a growing perception that greater job opportunities have been created for young Gaelic speakers compared to their non Gaelic speaking counterparts.

Generalising some of these issues, Hocevar (1975) examines the factors behind the spread of minority languages into wider domains, and finds this relates to the number of speakers, the cost of learning the majority language, and the cost of investment necessary to generalise the use of the minority language in these domains. Depending on the divisibility of goods produced using minority language resources, market forces may or may not suffice to ensure the spread of the minority language into new domains; if not, government intervention through language policies will be required for this to happen. Although there remain no unilingual speakers of Gaelic in this country, Hocevar's study is of interest in offering insights into the resources available and necessary to an authority wishing to increase the use of a minority language such as Gaelic.

In an early but useful treatment of language planning using cost-benefit analysis, Thorburn, (1971) attempts an identification of the benefits and costs of alternative language - planning options, together with their monetary evaluation. One interesting conclusion from his approach is that the socially optimal degree of multilingualism in any country with more than one speech community, is unlikely to be zero (unilingualism) or infinite (limitless multilingualism). A good language policy would likely converge toward a solution, where a finite number of languages (but normally more than one) is recognised by language planners .

⁵¹ The area however, has been dealt with in Galloway, J. (1995). The Role of Employment in Gaelic Language Maintenance. Celtic Studies. Edinburgh, Edinburgh.

Also making the case for intervention and positive planning, Church and King (1993) view language (in its role as a tool for communication) as a merit good and argue that government intervention can be justified with a view to increasing public welfare.

This issue again finds echo in the current campaign to achieve 'secure status' for the Gaelic language, following perceived success with a similar approach in Wales in relation to the Welsh Language Act (Dunbar 1996; CNAG 1997)

2.17.2. The economic causes of language shift

Although there are comparatively fewer empirical studies existing of the economic causes of language maintenance and shift, one exception is Keane, et al, (1993), who examine the situation of the Irish language around the Connemara region of Ireland, building on a study of the same area in the previous decade (O' Cinneide, Keane et al. 1984) and of the work of the Udaras na Gaeltachta - the Regional development agency given responsibility for the areas of high Irish language use. (Keane, Cawley et al. 1983)

Within this, they note the 'uneasy relationship between culture and economic development' (Keane, Griffith et al. 1993:p399) although they believe that the maintenance of cultural areas is inextricably connected to the areas' ability to survive in economic terms. Language and culture are seen as valuable resources, but also as exhaustible ones in the sense that if the language and culture are not given due care and attention during the course of efforts to promote economic development, then both may disappear. Social and economic forces, external to the minority language area can also exert important influences. Hindley (1990) investigates the decline in the use of Irish and finds the reasons 'relate primarily to economic forces which have promoted the modernisation of the Gaeltacht economy involving them intimately in much wider and constant social and economic relationships than are encompassed by the language' (quoted in Keane et al 1993:p400). This is a theme which has been noted on several occasions in relation to Scottish Gaelic by MacKinnon (1992:p12; 1997b:p3) with particular reference to its consequences for intergenerational transmission. Within the data gathered for this present thesis, it is now possible to investigate the

connection between the consumption of GLAC goods and services and perceptions of the GLAC/ Economy link, again a first, in terms of research.

Prattis(1983) in a study of oil related development on the Isle of Lewis gave examples of a positive correlation between industrialisation and minority language use - with local people returning to the islands to work in this industry - and exhibiting aspects of a greater confidence in their language than previously.

Several studies by Sproull mentioned above (Sproull and Ashcroft 1993; Sproull 1994; 1996) have already indicated the economic impact of 'Gaelic Related Economic Activities' - which it was assessed added £41m to the output of the economy and created almost 1000 FTE's in the period 1990/91. These have also posited possible dynamic effects of such economic activity which will be further examined in the body of the thesis.

2.17.3. Minority language advertising as a marketing tool

According to Grin (1996a) insight into the possible importance of language variables by corporate decision makers appears to be surprisingly low, with little research yet undertaken on issues like locational choice or language use in advertising and communications. A major area of this present work was therefore allotted to the collection of data on this issue from the main business communities of both the Western Isles and the Skye and Lochalsh areas and is developed further below.

The language component of advertising practices, is explored in Grin (1994a; 1994b), who examines incentives for firms operating in bilingual markets to start using a minority language in advertising, along side the majority language. Dealing with a bilingual situation where there is a strong body of written (as well as oral) language in both communities, he finds that if the public is generally indifferent to their own language choice then a unilingual commercial environment will be the inevitable outcome. Amongst the variables which would work in support of bilingual advertising would be a sharply competitive market, clear product differentiation between minority and majority language goods, and an increase in the income of minority language speakers or positively biased bilinguals.(1994b: p286) In examining this question in relation to Gaelic, the preponderance of the oral tradition,

and the differing general competencies in oral and written Gaelic amongst the community is an issue which has also been addressed.

The role of language in the locational choice of firms is a similarly underdeveloped area of research, but is examined by Pellenbarg (1993) and van Langevelde (1994) in the case of Friesland. One of the aspects of this thesis has therefore been to examine this issue in relation to Gaelic Scotland, and the effect which GLAC plays in how the area is perceived by business (see below p. 268).

Regarding the general advantage to business of bilingual staff in Australia, Stanley et al (1990) have examined how the possession of skills in languages other than English (LOTEs) can add to a firm's competitive edge, particularly on foreign markets and international trade. Less has been done however, on the effects of language competence when dealing with a mostly bilingual domestic market. The employment of Gaelic speaking staff by businesses has therefore been addressed by the thesis, together with the extent to which other Gaelic products and services are used in the execution of day to day business by enterprises in the geographical area in question.

2.18. Conclusion

The aim of this literature review has been to explore the theoretical basis for the specific thesis under examination – that Gaelic language art and culture is an important potential factor in the future development of the spatial area known as the Gaelic Economy⁵² and that it can positively impact upon the long term health of the Gaelic Economy through its effect on intermediate variables which are in turn linked to economic growth.

Implicit within the findings of the four general areas highlighted within the literature review are several suggestions. One that GLAC related production may be shown to have long term developmental qualities in relation to the Gaelic Economy. Secondly,

it may be expected that *inter alia* this perception may lead individuals to become involved in its provision. Thirdly, with regard to human capital issues is suggested that the richness and diversity offered through the provision of GLAC related goods and services may enhance the production process within this area. Finally that positive 'group dynamics' may become evident within the local economy arising from cultural attributes evident within the local population.

As has been shown above, a strong theoretical case can be found for this thesis within the literature surveyed. However further empirical exploration is needed to validate the extent to which the theoretical standpoints outlined can be justified by empirical fact. Doing so will also allow the drawing of implications for policy practice in this area.

To allow the best focus for empirical investigation over what is a very wide range of theoretical material surveyed, Section 2.18.1 below summarises key issues raised within the literature and around which further empirical evidence was sought in the furtherance of this thesis.

2.18.1. Areas for further empirical investigation

These areas can be summarised under four headings:

- The structural/ institutional conditions existing within the economic sector surveyed
- The reasons for GLAC practitioners involvement within the sector
- The implications of local cultural attributes for economic development
- The mode of operation of local economic actors in terms of cohesion and networking

Approximately thirty seven issues were found to be raised under these four headings which are further delineated in Table 2-7

⁵² As previously outlined, for the purpose of this thesis, this has been taken as comprising the Western Isles and parts of Skye and Lochalsh in order to best allow comparisons with the earlier Sproull and Ashcroft study.

Table 2-7 Issues for further empirical investigation

a) Structural/ institutional conditions existing within the economic sector surveyed		
i) General/ Conceptual Issues	Author (where appropriate)	Empirical Investigation
1) The concept of <i>development</i> as the need for long term change in addition to short term jobs	Various	Whether GLAC can be demonstrated to show a long term as well as short term impact
2) The concept of <i>development</i> as involving: Sustenance; self esteem and freedom	Todaro	The extent to which GLAC contributes these factors in addition to more narrowly defined economic impacts
3) The concept of <i>development</i> utilising indicators other than simply GDP	UNDP	Whether the growth or development of the language can be seen as an intrinsically positive issue in addition to impacting positively on local GDP
4) The concept of <i>development</i> as involving the modernising of <i>human</i> resources	Kuznets	The extent to which the resourcing of GLAC can be justified as part of a wider developmental approach to change in the Gaelic Economy
5) Cumulative causation	Myrdal	Whether GLAC plays a role in an overall positive process of economic and social development where the end result is more than the sum of the individual parts
6) The role of culture as part explanation of the 'residual' behind growth theories		The extent to which cultural specificity can be deemed to impact positively on the growth in local GDP
ii) Specific issues		
7) The needs of firms in terms of enterprise support	Deakins	The extent to which the suppliers of GLAC related goods and services are given adequate support from the enterprise network
8) Issues within Keynesianism as an approach to development deadweight subsidies local sourcing low level leakages	Various	The extent to which GLAC, due to its spatially bounded supply can be seen to positively respond to the Keynesian paradigm
9) Entrepreneurial factors: the effects of external factors	Vesper etc	The extent to which the provision of GLAC is stifled

		as a form of enterprise due to market failure, or similar external factors
b) Rationale for practitioner involvement in supply of GLAC goods and services		
i) Specific issues		
10) Economies of Scope	Naisbit	The extent to which small scale GLAC practitioners can take advantage of gaps within the larger English language arts and cultural market
11) Niche creation/ competitive strategy	Porter	As above
12) Monetary returns from individuals choice of bilingualism	Vaillancourt	The extent to which involvement in GLAC is seen to be of direct economic benefit to individuals
13) Constrained utility maximisation model	Grin	As above
14) Lower unemployment	Drinkwater & O'Leary	The measurable impact upon employment of the provision of GLAC related goods and services
15) Increased opportunities	Arburghan	As above
16) Business Location	Pellenbarg	The extent to which GLAC is perceived to offer a comparative economic advantage to firms and thus influence locational decisions
17) Regional Comparative Advantage/ localised learning	Asheim & Dunford	The extent to which involvement in GLAC allows comparative economic advantage to practitioners
18) Entrepreneurial Goals	Kuratko	The reasons for which practitioners become involved in GLAC provision and the factors behind continuing provision
19) Minority language advertising as a marketing tool	Grin	The extent to which businesses take advantage of the benefits of minority language advertising
20) Attitude towards minority language as a determinant of consumption	Grin	The extent to which consumption of GLAC related goods and services is affected by a whole range of characteristics including possession of a minority language

c) Implications of local cultural attributes for economic development/ effect of human capital in poor areas		
i) Specific issues		
21) Opportunities to generate income from cultural knowledge; 22) Catalysing local level development; 23) Conserving/ generating revenues from existing cultural assets; 24) Strengthening social capital; 25) Diversifying strategies of human development/ capacity building;	The World Bank	The extent to which GLAC provision can be shown to impact positively in these areas
26) Locally embedded innovation and differentiation 'the learning economy'	Lundvell and Johnston	The extent to which the specifics of GLAC provision can contribute to strengthening innovation and diversity in the local economy and to strengthening human capital
27) Problems of peripheral innovation	Morgan	The extent to which the contribution of GLAC can be deemed to positively impact in an economic area deemed peripheral
28) Gaelic language as a merit good	Church and King	The extent to which measures aimed at developing GLAC can have more than a specifically market oriented impact
29) Bilingualism as socially optimal	Thorburn	As above
30) Culture conscious management	Price	The extent to which the benefits of GLAC are perceived as such in practice
31) Skills brought by bi-lingual staff	Stanley	The extent to which the potentialities of GLAC are realised in practice
32) Dynamics of the market	Hocevar	The extent to which the spread of the Gaelic language can be market led
d) Impact of GLAC on attitudes towards business and networking		
i) Specific issues		
33) Group attitudes to economics	Throsby	Whether it is possible to measure any effect of GLAC on group dynamics in business
34) Measuring networks	Jones	The extent to which GLAC related provision is effected by social and economic networks
35) The effect of uncertainty on firm formation	Storey and Sykes	The impact of local cultural attitudes to risk and to firm formation
36) Need for physical contact	Bower	Evaluating the role of

		networks in both their physical and electronic forms
37) GLAC and migratory decisions	Stillwell/ Woods/ Temple	The extent to which provision of CLAC can be deemed to positively impact on issues such migration and in-migration

2.19. Testing the conclusions of the literature review

In order to test the applicability of the conclusions within the four areas above, a widespread collection of data on the consumption and production patterns for Gaelic artistic and cultural products and services was undertaken in furtherance of this thesis (see methodology chapter). This allows for the first time empirical investigation of the extent to which the demand for and supply of GLAC related goods and services can contribute towards social and economic development within the framework outlined within this literature survey and in regards to its impact on the economic variables noted as significant for economic development. Details of the large scale empirical evidence collected and the methodological approach adopted to allow conclusions to be drawn from investigation of the data in the light of the theories outlined above are outlined in chapters 4 to 6. Firstly however it was necessary to further analyse how the actual policy approach to economic development has operated in practice. By doing this it will be possible to give a subsequently realistic appraisal of possibilities offered by GLAC related economic activity. The analysis of actual practice is found in Chapter 3.