

# *Creativity and the Public Interest in Economic Development: A Knowledge Governance Perspective*

This article analyses the economic development from the point of view of organization production and considers the hypothesis that treatment of creativity is a fundamental determinant in order to make possible economic development at a local, regional, national and of course a global level. Developing the creativity means concentrating on the people and their ability to discover and determine production opportunities and make sure that each individual is able to promote and use creativity. This last one demands policies to support and encourage structures and practices which would help make possible the previously mentioned in the governance of the production.

*Artikulu honetan garapen ekonomikoa aztertzen da, ekoizpen antolakuntzaren ikuspuntutik, eta sormenaren trataera tokian tokiko, eskualdeko, nazioko eta mundu osoko garapen ekonomikoa ahalbidetzen duen faktore funtsezko eta erabakigarria delako hipotesia proposatzen da. Sormena garatzeko pertsonengan eta ekoizpen-aukerak aurkitzeko eta zehazteko haien ahalmenean arreta jartzea esan nahi du, eta orobat gizabanako bakoitzak bere sormena sustatzeko eta erabiltzeko aukera izan dezala bultzatzea. Azken hori lortzeko, ekoizpenaren gobernantzan halako espazio bat ahalbidetzeko egiturak eta praktikak sustatuko eta bultzatuko dituzten politikak behar dira.*

En este artículo se analiza el desarrollo económico desde la perspectiva de la organización de la producción y plantea la hipótesis de que el tratamiento de la creatividad es un determinante fundamental para posibilitar el desarrollo económico a escala local, regional, nacional y, por supuesto, global. Desarrollar la creatividad significa centrarse en las personas y en su capacidad de descubrir y determinar oportunidades de producción, y favorecer que cada individuo se encuentre en situación de fomentar y utilizar la creatividad. Esto último exige políticas que apoyen y fomenten estructuras y prácticas que hagan posible dicho espacio en la gobernanza de la producción.

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Keywords: governance, public policies, politics.

JEL Classification: H77, D85.

## 1. INTRODUCTION

This paper considers economic development from the perspective of the organisation of production. The basis for our argument is a synthesis of two previously distinct analyses of the theory of the firm, namely: the competence-based and strategic choice approaches. That synthesis makes creativity – i.e. the use of ideas and imagination so as to make things happen – a central issue in understanding production. From that we hypothesise that the treatment of creativity is a significant determinant of the prospects for economic development at local, regional, national and indeed global levels.

We suggest that a focus on creativity is significant for development in at least two respects: because it focuses on people and their ability to discover and

shape production opportunities; because it requires that each and every individual is in a position to nurture and use creativity. The latter remark points to the policy need to support and encourage structures and practices that enable such a space in production governance. In particular, this is applicable to the analysis of the internal governance of firms as well as to inter-firm interactions.

The structure of the paper is as follows. Section 1 explores the organisation of production, combining its significance with respect to knowledge and governance. Section 2 highlights the significance of creativity, contrasting our analysis with much of the currently topical concern with so-called creative industries. Section 3 deepens the analysis by introducing the interests of publics as a criterion for assessing economic relations, behaviours

and activities. This takes us in Section 4 to a depiction of the reality and prospects for economic development, hence to further comments on people's creativity. We conclude with some brief remarks about the challenges facing societies, communities and territories.

## 2. THE ORGANISATION OF PRODUCTION

We view the essence of the problem of organising production as the creation and use of knowledge so as to make choices over the strategic direction of activity (which may then facilitate the further creation and use of suitable knowledge).<sup>1</sup>

The concern with knowledge follows Richardson (1972) and Penrose (1959), who identify it as the essence of capabilities and see capabilities as defining what a firm can do. The link with strategic choice is inspired by a critique of the competence-based approach (*inter alia* Prahalad and Hamel, 1990; Teece and Pisano, 1994); this stresses the commitment, transmission and reproduction that are necessary for the effective creation and use of knowledge, but underplays the critical significance of the governance of knowledge processes. In contrast, governance – defined in terms of the power to determine strategic direction – is the principal concern of the strategic choice approach to the theory of the firm (Cowling and Sugden 1998). It contends that the critical determinant of what does or might occur in production activity is strategic choice; that each and every type of economic process, system and

organisation is characterised by a particular type of strategic choice, i.e. governance process; and that different types of governance are associated with different outcomes (in terms of efficiency, distribution and wellbeing). Fusing the two approaches, the knowledge governance perspective addresses the question of who participates in the creation and use of knowledge (including knowledge of decision making processes), how participation occurs, on what basis and with what implications.

In order to address those issues we take a spectrum of governance possibilities (Sacchetti and Sugden, 2003), the two extremes of which are as follows:

- Direction: a hierarchical system to plan activities according to the exclusive aims of a core, with or without the agreement of others; strategy making is dominated by the core, which directs resources.
- Mutual dependence: an ideal type, characterised by the absence of hierarchy and of a strategic decision-making core; strategies are determined through a process of diffused co-ordination amongst partners, each of which is allowed and encouraged to contribute to strategic choice through communication and deliberation.

To illustrate, consider Hymer's (1972) analysis of uneven development, which can be applied to economic development at local, regional, national and indeed global levels. His concern is a stylised version of the US economy, and in particular its evolution from a system in which small firms are especially influential into one in which certain forms of large corporation "penetrate almost every nook and cranny" (48). The

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<sup>1</sup> This perspective is explored and explained in detail in Sacchetti and Sugden (2009b).

analysis focuses on a hypothetical situation: what the world economy would look like, if it was to be dominated by a “regime” (38) of such corporations. Hymer argues that the governance by direction in the corporations would be reflected in governance by direction of the world economy.

Hymer's analysis focuses on layered decision-making in transnational corporations, most interestingly on two extremes: (a) the lowest levels of management, responsible for the coordination of day-to-day activities; (b) the most senior levels of management, concerned with goal determination and planning, i.e. strategy. He argues that whilst the lowest level would be spread throughout the world “according to the pull of manpower, markets and raw materials” (50), the strategic planning activities would be concentrated in a handful of major cities, the likes of London, New York and Tokyo:

One would expect to find the highest offices of the [transnational] corporations concentrated in the world's major cities ... These ... will be ... major centres of high-level strategic planning. Lesser cities throughout the world will deal with the day-to-day operations of specific local problems. These in turn will be arranged in a hierarchical fashion: the larger and more important ones will contain regional corporate headquarters, while the smaller ones will be confined to lower level activities (50).

What Hymer also argues is that such an extreme system of governance by direction would have significant welfare consequences: “income, status, authority and consumption patterns would radiate out from [the major] centres along a declining curve” (38), and “the ‘best’ and most highly paid administrators, doctors, lawyers, scientists, educators, government

officials, actors, servants and hairdressers” (50) would agglomerate around those centres. His ultimate conclusion is that such governance has a systemic tendency to produce poverty as well as wealth, underdevelopment as well as development.

The significance of Hymer's work is in its message:

- Concentrated governance in production originates development imbalances which seem to be more and more related to exclusive governance for the pursuit of narrow private interests.
- The countries hosting corporate headquarters are not necessarily more protected from perverse distributional effects than the countries hosting subsidiaries.

For example, deindustrialisation has been a phenomenon characterising the last four decades, where in the likes of the United States and the UK it has been accompanied by improved economic performance with respect to, for instance, productivity indicators (Rowthorn & Coutts 2004). One of the related characteristics of deindustrialisation is the delocalisation of manufacturing activities, a strategy which shifts the labour force outwards. Delocalisation is also occurring from industrial areas which have long been based on locally embedded networks of small and medium sized enterprises, such as Italian industrial districts. Although strategic direction might remain within districts, it is doubtful whether the district is able to generate the potential for a bulk of related professions (Onida 2003).

Restructuring following delocalisation also needs careful consideration in terms

of whether it can free resources for developing new and varied activities that would compensate for the loss of welfare suffered in the local labour market. On the other hand, new destination areas commit important shares of the labour force to manufacturing jobs that are created as a result of delocalisation (Sacchetti 2004; Gwosdz & Domański 2008) and that continue to be controlled from the original regions. Other non-manufacturing sectors, mainly those related to services and to the production of intangibles, have also suffered after the recent frauds that have occurred in the transnational financial sector. The latter, in particular, have affected all world regions, including the countries of origin of the bankrupt banks.

### 3. CREATIVITY

A clear implication of our focus on the creation and use of knowledge so as to make strategic choices is that creativity is a central concern in the organisation of production. There are three dimensions to this relevance:

- The *creation* of knowledge: the use of ideas and imagination so as to cause an alteration in knowledge, for instance increasing the stock or changing its distribution.
- Creativity in the *use* of that knowledge.
- Creativity in *choosing a strategy*: the use of ideas and imagination so as to make things happen by opting for particular directions in production.

This perspective is in stark contrast to the attention given to creativity in recent analysis of “industries supplying goods and services that we broadly associate with cultural, artistic, or simply entertainment

value” (Caves, 2000; 1). Topical though the analysis of these ‘creative industries’ has become, not least in terms of prospects for economic development (see, for example, Cooke and Lazzeretti (2008) on cities and other localities), it is largely unconcerned with creativity as essential to the organisation of industry in general. Rather, the literature considers sectors of industry that have been previously ignored, applying to the new-found sectors more or less traditional analytical methods (Caves, 2000). Moreover, there is typically no concern with creativity amongst people in general, instead there is consideration of restricted groups; see especially Florida (2002) on the notion of a creative class. Differently, we relate the exercise of individual creativity to strategic choice regarding the modalities and the objectives of production activities. If choices over strategic direction in production are concentrated, there is a confinement in creativity to two categories of people: firstly strategic decision makers, secondly those controlled by strategic decision-makers and whose creativity is used to further strategic decision-makers’ interests. That is because the exercise of imagination and ideas by others would not serve – and indeed might undermine – those governing production.

In industrial economic analysis more broadly, debate appreciates creativity because of its impact on market competitiveness; the emphasis is on such inter-related aims as productivity growth, research, development and innovation (OECD, 1996, 2002). These are reasoned to depend (to some extent) on the innovation potential of interconnected agents (e.g. the entrepreneur, the scientist, the engineer, the user), which root their activities in a system of supporting institutions that facilitate the creation, use and diffusion of new knowledge in the form of new products

or even new industrial sectors (see Perez 2010 for a review of Schumpeterian and post-Schumpeterian contributions).

Complementing such analysis, earlier seminal work grounding institutional theory (Veblen 1906) has treated innovation from the particular angle of evolving socioeconomic systems, and did so by making the relationship explicit between each and every individual's spirit of inquiry (or *idle curiosity*) and institutional change. The question of social evolution has provided the perspective through which early institutionalists have regarded novelty (e.g. technological and organisational innovation), as opposed to embedded habits and socially diffused ways of dealing with everyday practicalities. Contextually, in the spirit of Veblen's *idle curiosity*, Dewey has written about the role of human intelligence, or inquiry, in permanently challenging existing false beliefs, which prevent society from fulfilling mutating human needs and impulses (Dewey, 1931). Technology, from that angle, represents one of the several areas to which critical thought can be applied. As strictly interconnected with social institutions and the way of doing things practically, technology provides part of the ground for scientific inquiry and, therefore, technological innovation and change. Vice versa, as Ayres suggested, "scientific answers are judged against technologically devised measures of adequacy" (Mayhew, 2010: 217). Building on these earlier thoughts in institutionalism and pragmatism, the overarching feature of socioeconomic analysis could be seen in the recognition that institutions (as well as individuals) are perfectible and that, therefore, critical intelligence has the task of invigilating the consistency between existing institutions and evolving human wants.

To take these considerations forward, we suggest the need for a broader appreciation of the role of creativity, one that recognises the constant interaction between socioeconomic activities and institutions. Interaction implies the need for constant change and adaptation in the answers to socioeconomic issues, the latter reflecting evolving human needs and aspirations. The governance of production activities falls within this context. Different ways of organising production activities are answers to different socioeconomic needs. Evolving needs imply mutating aims and require the renewal of production governance. It is on the choice of the latter that individuals also express their creativity, if allowed to do so. Re-thinking the organisation of production as open to the creative process allows different needs to emerge. At the same time it requires policy support for exploring and creating different organisational settings, including governance structures, rules and routines that respond to new emerging characteristics.

These considerations lead to a number of questions:

- Who is and who is not using their imagination and ideas in the creation and use of knowledge so as to make choices over the strategic direction of production?
- Whose interests are being pursued when those strategic choices are being made, and whose interests are being ignored?

To find an answer to these questions, we turn to Dewey (1927) on the interests of publics and thereby deploy a particular criterion for assessing socio-economic relations, behaviours and activities (Sacchetti and Sugden, 2009a).

#### 4. INTERESTS, NOTABLY PUBLIC INTERESTS

For Dewey (1927), an act might have significant consequences both for those directly engaged in it, and for others. The direct participants are said to have private interests in the act, whereas the others have public interests. Dewey (1927) is also clear in acknowledging that an act might bring into existence more than one public, each of which, according to Long (1990; 171), has “a shared concern with consequences” of the act. Referring to this literature - and recognising that the making of a strategic choice is an act – Branston *et al* (2006; 195) identify “the public interest in a corporation’s activities in general and in its strategies in particular as the agreed upon, evolving concerns amongst all of those indirectly and significantly affected by those activities and strategies (wherever they live, whatever their nationality).” For example, the consumers purchasing a corporation’s outputs would form a public, as would (at least the mass of) the corporation’s employees (i.e. all of those not actually making its strategic decisions).

To illustrate more specifically, consider the economic crisis that broke across much of the world in 2008. Strategic choices in the banking and finance sector in London, New York and other leading centres impacted on interested parties in all sectors and in all corners of the world. Stiglitz (2008) refers to a global crisis and to “families whose life dreams are destroyed as they lose their homes, their jobs, and their life savings.” Very few of the people losing their employment had a direct input to the strategic choices being made, but each clearly had an interest. When Bell and Blanchflower (2009) refer to the crisis impacting on youth unemployment

and warn of the “permanent scars” (26), they are identifying young people as an interested public.

#### 5. ECONOMIC DEVELOPMENT: REALITY AND PROSPECTS

Drawing these lines of analysis together, Figure 1 depicts reality under currently prevalent processes of economic development, in line with the aforementioned analysis of Hymer (1972). It focuses on the parallel spectra of interests and governance possibilities that we have been discussing. On the left hand side of the Figure we map governance, ranging from direction to mutual dependence. Parallel to this, on the right hand side we map the accommodation of interests.

The idea underlying the parallel spectra is as follows:

- One extreme is governance by direction, associated with the pursuit of specific private interests and the exclusion of publics.
- The other extreme is governance by mutual dependence, associated with an awareness and accommodation of the interests of publics.
- Between these two extremes are degrees of direction, corresponding with degrees to which specific private interests override the interests of publics (or, viewed from the opposite end of the spectrum, corresponding with degrees to which there is an awareness and accommodation of the interests of publics).

As for the current reality of economic development, the sort of concentration of power and unevenness envisaged by



Figure 1

**Governance of, and interests in, economic development**

Source: Made by the author.

Hymer (1972) is in many respects well recognised in the literature (*inter alia* Dicken, 1992; Cowling and Sugden, 1994; Sugden and Wilson, 2002 on economic development; Sugden and Wilson, 2005 on globalisation). For example, Henderson *et al* (2001) review analysis of uneven development across and within countries. For them, “the most striking fact about the economic geography of the world is the

uneven distribution of activity” (81), reflected in 54% of world GDP being produced by countries occupying 10% of the land mass. Similarly Coe and Yeung (2001), asserting that uneven development is “the single most visible structural outcome of globalisation processes” (370). Moreover, they relate development variations across territories to the “uneven power relations underlying most global production chains



such that some segments of these chains have disproportionately greater power and control over other segments” (371).

This recognition of concentrated power applies not only to the power associated with particular localities, regions and nations, but also to that of particular firms. Consider for example Fold (2001), highlighting the impacts of large producers in the chocolate industry in Europe on cocoa production in West Africa, and linking those with the influences of the structural adjustment programmes stimulated by the World Bank and International Monetary Fund (IMF). More generally, Rothschild (2005: 445) views the large transnational corporations as having “become – nationally and internationally – an especially powerful interest group.”

In short, on the basis of the theoretical and empirical evidence, we would argue that the world's economies have been driven by large and powerful firms that essentially follow their own, private interests, with comparatively less regard for the publics upon which they impact. Hence we show the current reality of economic development – local, regional, national and global – in the space towards the extreme lower ends of the governance and interests spectra in Figure 1.

Furthermore, an implication of this analysis is that most people are constrained in their creativity. In part, the private interests governing economic development processes have, as a corollary, excluded interests that comprise a mass of people who are not directly or significantly involved in creating and using knowledge so as to make choices over the strategic direction of production. These excluded people are simply denied what Schumpeter (1912: 93) refers to as “the joy of creating, of getting things done, or simply of exercising one’s

energy and ingenuity.” We would also assert that even amongst those not denied, most are constrained so that the fruits of their creativity can be harvested for the narrow, private gain of those governing production.

In terms of organisational design, the departure from hierarchy (and the values associated with it, i.e. the exclusive use of creative abilities) requires an increase in the complexity of the rules governing the organisation. Such change would be framed by the development of new habits of thought and routines, which are themselves an expression of creativity. Several factors, however, may hinder change, e.g. power imbalances (Cowling and Sugden 1998a); lock-in effects and path dependence from previous choices (David 1985); risk; lack of alternative institutional frameworks; resistance to change (Hirschman 1970); loss of critical abilities in people; acceptance of the status quo (Sacchetti, Sacchetti and Sugden 2009). Yet, following early institutionalists, if critical inquiry and curiosity are at the roots of change, then creativity maintains a paramount position. This is consistent with Dewey’s philosophy as well as with the Veblenian inclination of people to exert their inquisitiveness and curiosity, the critical and the creative proceeding in one piece, ‘placed as they are between openness and decisiveness’ (Christensen, 2009: 725; Veblen 1998/1898).

The case for a diffused, rather than concentrated, use of creativity is essentially related to people being able to shape production consistently with multiple, emerging values and needs. Fundamentally, this requires that at an upper level, there exists a variety of governance structures which are the expression of different sets of values (see lanes and Tortia 2009). Recalling a Veblenian argument, a multiplicity of

institutional solutions is necessary if production governance is conceived in evolutionary terms. For example, alternatives are offered by different forms of third sector organisations, including cooperatives. The latter, in particular, do not pursue in an exclusive way the private interest of the controlling owners of capital shares, are typically based on mutuality and hold strong territorial roots, both in terms of membership and strategic objectives (lanes and Tortia, 2009; Borzaga and Tortia, 2009; 2010). Cooperatives offer, in that context, a specific institutional space for the “development and application of self defined rules by the members of the cooperative” and a different approach to “management, implementation, and appropriation of common resources and outcomes” (Sacchetti and Tortia 2010). Again, this is an argument for focusing on creativity as the spark which conveys variety, adaptation and change in socioeconomic systems.

## **6. CONCLUDING REMARKS**

Viewed from another perspective, we have identified a critical challenge for societies, communities and territories: the possibility of evolving a model of economic development that better serves the interests of publics. Quite how this might be achieved, if in fact it could be achieved, would require further analysis and considerable thought. For example, we would need to explore precisely what is meant by ‘public’. We would need to understand how publics might identify both themselves and their interests; analysing what acting in public interests entails, Dewey (1927; 327) reasons that “the prime difficulty” is discovery of “the means by which a scattered, mobile and manifold public may so recognise itself as to

define and express its interests.” Especially important, we would need to think about the importance of values in socio-economic activity (on which see Sacchetti and Sugden, 2009a). Do people look to impose one on another? Do they focus on personal consumption for personal gratification? Do they value mutual respect, sharing, critical awareness, some notion of socio-economic democracy?

Another concern would be consideration of varied types of enterprise, and indeed socio-economic systems comprising different mixes of enterprise types. Using Hymer’s analysis, this Chapter has offered criticism of a stylised form of large corporation, but that is not to argue that large corporations or large firms more generally do not have a place in a socio-economic system serving the interests of publics. It might be that we need to consider systems in which there are both large and small firms, as well as firms that seek profit and those that are non-profit. Perhaps we need to give particularly close thought to the role of so-called social enterprises and the third sector.

Policy addressing issues of socioeconomic development needs to stimulate critical thinking and awareness in people. This constitutes a step for individuals to recognise changing needs and new ways to address them. This may occur through education, or through the activity of artists (Sacchetti and Sugden 2009). With respect to the former, for example, business education covers an important role in prompting students towards a variety of issues of importance for societies, including the qualities of different forms of business and their implications for development. On the other hand, “the artist in realizing his own individuality reveals potentialities hitherto unrealized.

This revelation is the inspiration of other individuals to make the potentialities real, for it is not sheer revolt against things as they are which stirs human endeavour to its depths, but vision of what might be and is not.” (Dewey 1977/1940, p. 148) .

At the same time, being stimulated, the creative potential needs also to be exerted, for example by way of choosing directions in production. If the measure of competitiveness was the capacity of socioeconomic systems to address the diversity of needs expressed by all of its people, then stimulation, recognition and

support of varied and more inclusive governance structures would be a suitable policy strategy for competitiveness. By offering a clear framework which recognises, in particular, production organisations based on inclusive governance, policy can encourage and support a production environment which is more conducive to the expression of individuals’ creativity when they mutually address their needs. Examples are the recent legal frameworks introduced in a number of European countries to recognise and promote the establishment of social enterprises, or voluntary frameworks for corporate social responsibility.

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