THE MONIESON CENTRE
TRANSFORMING BUSINESS IN THE KNOWLEDGE ECONOMY

Knowledge Synthesis

Community Economic Development (CED) – A Model for Effective Community Planning Part I: Basic Principles of CED

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INTRODUCTION

This knowledge synthesis is part of The Monieson Centre's Knowledge Impact in Society (KIS) Project, a three-year endeavour to connect academic knowledge with economic development needs in Eastern Ontario. The synthesis is an accessible presentation of the latest research on issues affecting rural Eastern Ontario. The knowledge synthesis topics were determined through information gathered at 15 community workshops run in partnership with the Eastern Ontario Community Futures Development Corporation network. The KIS Project is funded by the Social Sciences and Humanities Research Council of Canada. For more information, visit www.easternontarioknowledge.ca.

A structured approach to economic development is a key priority for all stakeholders of communities who are looking to grow in a sustainable fashion. Basic goals include increasing economic activity, improving employment prospects and increasing the standard of living. Sound planning of this sort is complex and challenging in the sense that it encompasses a number of different spheres, including social, economic, and environmental, that interact to determine success. A piecemeal approach that only considers parts of the overall system will inevitably lead to outcomes that are far removed from potential levels of success.

Community Economic Development (CED) is a holistic planning approach which has gained prominence over the past fifteen years. At its core, it aims to shift control of the local economy away from the larger market. This approach acknowledges that economic development in communities is intimately connected with political, social and environmental issues and attempts to consider all of these in unison, rather than developing actions specific to one of these spheres that assume each to be isolated from the others.

The following paper series was developed to highlight the importance of CED for local stakeholders and to provide them with basic concepts and principles they can use to guide the effective planning of their communities. Part I describes the foundations and basic principles of CED. Part II, available at www.easternontarioknowledge.ca, recognizes the importance of innovation in today's dynamic and global economy, and therefore focuses on innovation as a major component of CED.

THE BEGINNINGS OF AND RATIONALE FOR CED

Widespread support for CED in North America can be traced back to the economic recession of the early 1980s. This period of hardship sparked a reorientation of thought that began to question some of the basic assumptions about economic development. Before this time there was a general belief that the welfare state was willing and able to provide full employment, increased standards of living, appropriate services and a reduction of regional disparity. However, the recession brought to prominence the fact that this was not indeed the case. Dwindling state funds, combined with state-level decision makers who were far removed and detached from local contexts, created the realization that a wave of community degradation, both on a physical and social level, was sweeping the continent. This trend continues today, with pressures from global economic development breaking apart the social relationships and structures of communities. Such pressures include: declining local economies resulting from drainage of wealth by large, externally-owned corporations; environmental degradation and depleted natural resources which could potentially be used for sustainable economic growth; decreased citizen control as decisions are made by higher levels of government and large corporations that have little stake in community well-being; and the erosion of local culture and identity as communities conform to a homogeneous mass society.

CED goes beyond the older school of thought which equated economic development with growth. This more traditional approach, often referred to as "smokestack chasing", is based on the belief that any and all opportunities to attract investment should be taken, with the end goal being an increase in the size of the local economy. From this perspective the primary roles of planners include: attracting capital to the community by promoting the advantages to potential prospects (e.g. inexpensive land and labour, low taxes, lax environmental laws). Such tactics tend not to be connected to a larger more systematic strategy which considers the community as a whole, and consequently often lead to unexpected and detrimental consequences, including:

- *Failure of existing businesses*. For example, the development of large shopping centres often replaces established local merchants
- *Increased costs*. Higher rents and wages due to growth can make locally owned businesses less viable.
- *Environmental degradation*. Industrial and natural resource-based developments, such as mining activities, can pollute local water sources and disrupt flora and fauna, and ultimately hamper long-term development opportunities.

CED stems from a recognition that in order to curb community degradation and to stimulate sustainable economic development, a certain measure of community control is necessary. This idea affirms that communities cannot rely on the state for effective planning, that is, bottom-up decision making is preferred to top-down. Likewise, they cannot rely on the market to ensure their survival. The notion that a healthy economy at the national level will have 'trickle down' effects that will ensure the economic health of communities at lower levels is fundamentally rejected by CED.

CONCEPTUALIZING CED

A useful way of conceptualizing and thinking about CED is in terms of community problem-solving. Ron Shaffer and his colleagues took this approach when developing their 'Star' model of CED.[1] Three of the nodes are specifically economics related (markets, resources, and space), while the other three nodes are more broadly related to CED.

[1] Ron Shaffer, Steve Deller, & Dave Marcouiller, "Rethinking Economic Development," *Economic Development Quarterly* 20 no. 1 (Feb. 2006): 59-74.

Space

Although some would argue space is no longer a key factor due to modern communication technologies, most rural Canadian communities lack broadband coverage and therefore, not surprisingly, are still affected by space-based decisions. For instance, spatial decisions are made by both businesses and households. Businesses must decide where to locate, where to expand, where to acquire supplies, and where to market their products. Households must decide where to live, where to work, where to go to school and where to shop. Today, many of these decisions connect people beyond their residential locality into other communities. Therefore communities cannot and should not view themselves as completely isolated, but rather, must actively organize, facilitate and manage intercommunity connections.

Resources

Shaffer argues that in order to broaden the development policies available to communities, thinking must move beyond conventional perspectives of economic resources which are usually limited to land, labour, capital and production technology. Traditionally, community policies of economic growth and development focused narrowly on attracting labour and capital, which seldom resulted in expected growth and many times resulted in unexpected negative effects. It is suggested that acknowledging and considering other more latent resources, such as the ability to innovate, is necessary to develop more comprehensive and effective policies. In today's increasingly dynamic and competitive market atmosphere, the ability to create new products and services, as well as new production methods, is essential for prosperity and survival.

Markets

Markets are the patterns of supply and demand for goods and services. There are two main types of markets: local and non-local. Local markets consist of businesses and consumers within the community and the transactions between them. Non-local markets refers to community produced goods and services that are sold outside of the community. The degree to which market transactions are more or less local affects the economic well-being of local residents.

Rules and Institutions

Traditionally, economic development planners considered formal rules and institutions, such as income tax laws, government power, and land and ownership rights. CED considers these, but also recognizes the power of informal rules and institutions including social organizations, culture, and community norms and values. These are less explicit than their formal counterparts, and differ in terms of enforcement, the former being governmentally enforced and the latter being enforced largely via peer pressure and social sanctioning. Both formal and informal rules and institutions affect the functioning of communities in all spheres including economic, political, and social.

Society and Culture

Society and culture refer to the social structure and cultural norms and values that constitute a community's business climate. This includes attitudes towards inter- and intra-community communications, innovation, institutional capacity, and entrepreneurship. For example, do community attitudes support the necessary and often unsuccessful experimentation needed to continuously innovate? Also, is failure and/or succeeding beyond the average frowned upon? Such attitudes can often be more powerful than formalized regulations and policies, and therefore must be considered.

Decisions

A community's ability to make effective decisions revolves around the ability to identify problems and then develop and implement solutions. Implicit in effective decision-making is the ability to differentiate between causes of problems and symptoms of problems. Simply addressing symptoms will mask the problem, but won't actually solve it. For instance, many rural communities have difficulty persuading businesses to locate in their area. A common response is to lower taxes as a means of attraction. Although this may indeed attract a few businesses, most of the time it does not result in expected returns in the long-term because the real problem is that community members lack the skills and abilities that businesses require of their employees. Therefore, the appropriate solution is not to mask the symptoms using tax breaks, but rather develop a program that encourages and facilitates the education and skills training of community members.

Another major part of decision-making is prioritization. All communities face more problems than they are able to address and, often, many challenges are beyond the community's control. Accordingly, the ability to identify which ones can be solved and which ones can't is essential so that resources are not wasted on unsolvable problems.

Establishing a clear and generally agreed upon community vision which includes explicit values should guide the prioritization of problems as they arise. Of course, a comprehensive analysis is required to determine the full nature of each problem and how it relates to community values and priorities. One of the most challenging aspects of decision-making is action. Once a strategy has been developed to address a problem or set of problems, community stakeholders must come together to implement the plan, otherwise no gains will be made. Communities differ in terms of their propensity for action taking. Some are motivated, while others are not. This is largely determined by community culture, which should be considered by all those communities who identify decision-making as a major deficiency. If a community develops sound strategic plans which then sit on shelves collecting dust, then lack of ability may not be to blame, but rather a culture that lacks an action-orientation. Finally, it is critical to recognize that decision-making is a continuous process which requires re-visitation and analyses of community values, priorities and problems.

ECONOMIC SELF-RELIANCE - THE FUNDAMENTAL PRINCIPLE OF CED

At the most basic level, the principles of CED are based on the integration of economic and noneconomic factors in the development of a long-term strategy that reflects a comprehensive understanding of the full range of choices available, and not simply relying on short-term tactics geared towards increasing economic growth. This is not to say that short-term projects should not be considered, but rather, the long-term strategy can be viewed as being partly made up of short-term projects that are coordinated in an integrative and strategic fashion. Here, in comparison to simple economic growth notions, development is seen as an enhanced capacity to act and innovate, usually involving some type of structural change such as ownership patterns, industry mixes, product mixes, occupational mixes, and changes in technology and/or institutions. This requires communities to develop a certain level of economic self-reliance.

Gaining economic self-reliance is somewhat antithetic to traditional global economic perspectives that focus on imports/exports and mass production and consumption. Self-reliance is based on orienting planning strategies towards local markets. This consists of producing internally and consuming that production internally so that wealth can be retained by the community, rather than flowing out into the larger, global market. This is not an isolationist approach. CED recognizes that flows of products and capital do need to be exchanged with parties outside of the community; however, these flows need to be managed in a way that does not lead to community dependency or exploitation. The goal is to create trade alliances and partnerships that are based on reciprocal exchanges that equally benefit both sides. For instance, developing nations often lose out when they trade their primary resources for finished products from developed nations because the process of finishing products creates new businesses and, hence, wealth.

There are a number of ways for communities to generate and retain wealth. Imports are a major source of economic leakage. When goods or services produced outside the community are purchased, money flows from the community to external suppliers. Creating a community culture that encourages purchasing from local businesses, rather than buying from national or transnational chain stores, can help stop external money flows. The key to successful import replacement is setting up local markets for local products where buyers and sellers can make pre-arranged trade agreements. Before this can be done information needs to be collected on what imported goods are being purchased, and the existence of local suppliers who could provide similar products.

Another source of money leakage comes from bank savings. When people put their money into bank savings the community loses because banks tend to reinvest that money outside of the region. To address this problem, community credit unions such as VanCity in Vancouver have set up community investment accounts to loan money to local businesses. Another solution that has been implemented by rural towns in Saskatchewan and Manitoba is the issuing of "local currency" by credit unions. Such programs lend out "cash" which can only be used at local businesses and provide a three-month interest-free period of repayment. Finally, some communities in British Columbia have created local exchange trading systems (LETS) which track debits and credits of trading. These systems manage the trading of products and services without reliance on actual cash. This allows for multilateral exchanges even when cash is in low supply. The result is increased purchasing power and new wealth.

Finally, one of the most important ways to create new wealth within communities is through innovation. Inventing new ways to create products from existing resources allows communities to generate wealth that did not previously exist and also allows for import substitution. A good example of this is the Tall Grass Prairie Bread Co. workers' co-operative in Winnipeg. Many years ago they decided to operate their own small flour mill, which allowed them to purchase wheat from local farmers. This innovation bypassed large transnational milling companies and enabled the bakery to cut production costs to the point where they could purchase local wheat for double what it sells on the market and still make a profit. The bakery has created new employment opportunities for local residents, is supporting local farmers and is providing healthy bread to local consumers. This example highlights the importance and potential of community innovation. As one of the most important aspects of CED, community innovation will be explored in greater depth in Part II of this Knowledge Synthesis series.

REFERENCES

Shaffer, Ron, Steve Deller, & Dave Marcouiller. "Rethinking Economic Development." *Economic Development Quarterly* 20 no. 1 (Feb. 2006): 59-74.