Changing Frameworks in Local and Regional Sustainable Economic Development

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I would like to thank Asaf Raz and the Project Wealth group for the invitation to provide a perspective on local sustainable economic development as part of the project's initial phase. The perspective that I bring is based on issues that have emerged in the United States, and consequently some of the topics may not be directly transferable to the Euro-Med region. Nevertheless, I hope that some of the issues that I will discuss are of enough general interest that there may be some potential for portability. I will divide the presentation into three sections: a historical perspective on economic development and its relationship to global economic change, mainstream economic development approaches as responses to the current historical situation, and localism as an alternative approach to economic development.

Because the historical background is common knowledge in this group, it can be covered briefly and schematically. Until the 1930s levels of protectionism were high for many countries, and the U.S. carried out its program of industrialization during the nineteenth century behind a wall of protectionism that enabled its import-substituting industrialization programs to flourish. At the end of World War II, the new global economic order set in place long-term processes in favor of the liberalization of trade and capital flows. These changes accelerated during the 1980s, when less developed countries shifted toward more open trade policies due to a combination of forced policy shifts embedded in structural adjustment programs and the desire to emulate the successful export-led growth models of rising Asian economies.

Among the less developed countries, the wealthier countries that were already engaging in industrialization underwent a shift in their strategies of economic development. The old model of import substitution, which was especially prominent in Latin America from the 1930s to the 1970s, was based on trade barriers, capital controls, public ownership, and the replacement of imported manufactured goods with domestically manufactured equivalents. The strategy was relatively successful in countries with large internal markets, such as Brazil, and it also flourished where there was an independent bureaucracy that had good channels of communication with the private sector (the condition that Peter Evans describes as "embedded autonomy"). When the countries shifted toward more open economies and an export orientation, some of them became caught up in the "Dutch disease," whereby the export commodity sector can drive up currency values to the point that manufactured export goods are not competitive.

Thus, theorists of the "new developmentalism" such as Carlos Bresser-Pereira have emphasized the importance of keeping currency values at competitive levels, and of course the suppression of currency values by China has become a highly contested issue with trading partners. Along with these changes, the form of government development policy has tended to shift toward what Seán Ó Riain has termed the "developmental network state," which is more decentralized and oriented toward the needs of innovation industries.

A parallel transition in economic development policies occurred in the wealthy, industrialized countries. The shift of low-tech manufacturing to less developed countries caused dislocations of manufacturing in the developed core of the global economy, where countries responded by attempting to climb up the ladder of technological complexity into more capital-intensive manufacturing, service, and knowledge industries. As I discuss in more detail in *Good Green Jobs in a Global Economy*, in the U.S. the mid-twentieth century economic development strategy emerged first in the less industrialized Southern states, such as Mississippi, and was focused on attracting labor-intensive manufacturing from the unionized North. As economic development programs diffused across the state governments, they tended to focus on the art of "smokestack chasing," or attracting an anchor industry for a vertical, Fordist cluster of manufacturing supply firms. The model of economic development was the Detroit automotive industry, and the market for manufactured goods was largely domestic. However, as both Southern and Northern states lost low-tech manufacturing to less developed countries, the strategy shifted from recruitment to incubation and innovation on the model of Silicon Valley and Massachusetts's Route 128, with horizontal networks and an orientation toward global production and markets.

The globalization of manufacturing was accompanied by the financialization of the economies, especially in the most highly industrialized countries. As David Harvey and Michael Hudson have described in recent work, the liberalization of capital controls allowed banks and large corporations to move investment allocations rapidly around the globe to areas where they found the highest return. Those decisions led to bubbles in commodities, real estate, and technology, and when the bubbles collapsed, the costs of stabilization were often shifted onto national governments. Overall, the capacity of national governments to regulate both financial and industrial capital was weakened because of the ability of capital to relocate and because of its growing influence on political systems. The result for many governments that do not control their own currencies, such as the E.U. member states and the state governments in the U.S., has been harsh austerity conditions. In response to austerity, governments privatize public resources (firms and infrastructure) and reduce social benefits and pensions. But financial support packages also tend to weaken local government protections on local capital, thereby opening local capital up to absorption.

This overview is schematic, but it provides a good first approximation of the historical context of economic development policies. The tendencies toward financialization and concentration are consistent with the long-term trends of modern capitalism, but there are also some differences between consolidation in the late nineteenth century and in the twenty-first century. The scale is much more global, the speed at which changes take place is much more rapid due to telecommunications, the relative weight of industrial capital with respect to financial capital is lower, the importance of innovation and technology is much greater, and the relative strength of countervailing forces (social movements, unions, and the state) is weaker.

Governments have moderated their economic development policies in response to these global historical changes. Governments that wish to anchor global capital in place and accrue the benefits of being the home to an industrial cluster have introduced a suite of economic development policies. Demand policies include support for early and sophisticated demand and for marketing of local products in global markets, and supply policies include venture capital, training, and service-sector support. Governments work to nurture a "triple helix" of government agencies (generally decentralized, following the developmental network state model), targeted industries that have a regional advantage, and technology transfer from local universities. Regional clusters tend to become specialized by industry, such as biotechnology, information tech, nanotechnology, military technology, entertainment and media, and clean tech. Although manufacturing is often relocated globally, the crucial "headquarters" functions of planning, strategy, marketing, and research and development tend to be maintained close to home. Thus, the high-technology clusters create good, high-paying jobs, but they are relatively few in number, and the high-tech response to globalization tends to result in a polarization of the wage structure. Unionized workers who formerly had well-paying manufacturing jobs must either retrain or shift into service-sector jobs, which tend to pay about half the former wages. As a result, there is growing inequality along with deunionization, which in turn weakens political support for income transfer policies.

The other strategy, also place-based, involves partnerships between local governments and global capital to create economic development projects such as urban redevelopment, suburban "big box" shopping malls, tourist destinations, and other forms of real estate development. In theory these developments are beneficial to local governments, because they increase real estate values and therefore increase taxes. However, sometimes the developments involve high hidden costs, such as increases in road maintenance, crime, and police and fire services. Furthermore, retail developments tend to bring about zero-sum relationships between neighboring cities, because shoppers are pulled across local tax boundaries, and central cities lose tax revenue to suburban competitors. These issues are discussed in detail in Stacy Mitchell's *The Big-Box Swindle*.

For the purposes of some of the researchers in this group, there are many quality-of-life issues that are raised in the imbrication of large economic development projects of this sort and the relationship between local and global capital. As anthropologist Walter Goldschmidt chronicled in *As We Sow*, an ethnography of two towns in California, quality-of-life issues are closely connected with local ownership. The California town dominated by agribusiness had lower living conditions, more dilapidated buildings, more concentrated power in decision making, lower community loyalty, greater social distance between social groups, lower retail trade and local businesses, and fewer youth facilities and social service organizations. Subsequent quantitative research by economists and sociologists, such as the work of Charles Tolbert, has also shown that higher levels of locally owned, independent businesses are associated with higher voter turnout, higher average income, higher social capital, lower infant mortality, and lower crime. Mitchell also contrasts the natural "habitat" of locally owned, independent businesses with that of large-scale retail and tourist developments: issues of urban design such as mixed use, walkability, mixed income, transit-oriented development, and infill versus suburban sprawl are associated with contrasting opportunities for local and global capital in the retail sector.

Although the mainstream and localist strategies can be complementary, especially the potential synergy between the high-tech manufacturing cluster and the local service sector, economic development offices also make strategic choices in favor of the mainstream options. Localist movements respond to the mainstream strategies of economic development by advocating greater attention to locally owned, independent businesses. The definitions of terms such as "local," "ownership," and "independent" are themselves negotiated before being articulated in mission statements of localist advocacy organizations. In the U.S., several umbrella organizations have emerged to support greater attention to the locally owned, independent business sector. BALLE, the Business Alliance for Local Living Economies, has a stronger emphasis on justice and sustainability issues, whereas AMIBA, the American Independent Business Alliance, focuses more on independent retailers and even some anti-chain-store mobilizations. There are other, similar organizations with respect to food, finance, and community media. As I discuss in *Localist Movements*, the goals of enhancing local ownership and advocating for greater sustainability and justice are not always aligned. In my experience as a founding member of a BALLE network in New York State, the independent businesses were drawn to the network largely out of the hope of increasing their sales, but there was a smaller group of leaders who endorsed the broad message of connecting the development of the locally owned, independent business sector with social fairness, regional quality of life, and sustainability goals. In the book I argue that there are some areas of local sustainable economic development where the convergence works especially well, such as community gardening, sustainable local food, reuse centers, community media, and local green energy and public transit.

These movements have produced an emergent social science of localism, or what I call "localist knowledge," much of which is based on a variant of the concept of import substitution. Funded by local business networks and conducted by the firm Civic Economics (again, see my book for references), the studies show that spending at a locally owned, independent business tends to result in more money being recirculated within the local economy in comparison with spending the same amount at a chain store. The reasons include profit retention, spending on local goods and services, donations to the nonprofit sector, and higher taxes paid by independents. Thus, campaigns to get consumers to shift some of their spending (and their banking) to local institutions offer the benefit of local job creation in addition to the broader quality-of-life benefits described above. Another research approach involves analyzing regional industries to identify which ones have a lower level of activity than generally would be expected based on national averages, so that import substitution strategies can be identified for shifting out-of-region expenditures back toward local businesses. Michael Shuman, the research director of BALLE, has developed an on-line tool for this kind of analysis.

Economists generally are cautious about the idea of import substitution, because at a national level trade barriers can protect inefficient domestic industries at the expense of domestic consumers. However, exceptions are generally recognized in the case of infant industries or industries deemed strategic for national goals. In the historical transition discussed above, import substituting industrialization strategies generally went out of favor from the 1970s to the 1990s, with the exception of protections for strategic industries. However, the term "import substitution" had a second life in urban development thinking, largely through the work of the urban theorist Jane Jacobs. In the hands of Michael Shuman in *The Small-Mart Revolution*, the rationale for import substitution became less one of protecting infant industries than one of protecting local capital from predatory global capital. The approach recognizes the positive externalities of local capital (or, conversely, negative externalities for some forms of global capital) for regional quality of life, and it recognizes the need for government policy to correct the market failure.

The public appeal of localism depends greatly on the industrial sector. For independent retailers, there are severe competitive pressures due to the lower prices in chain stores and Internet e-tailers, and there are also convenience benefits for big-box shopping. Strategies to encourage consumers to shift toward the independents have included developing on-line platforms for independent sellers, offering higher-quality products at slightly higher prices, offering used goods at much lower prices, and offering services (such as product repair) along with sales. In some cases, there are attempts to network with other community-oriented businesses, such as fair-trade networks, in a pattern of "global localism." In the food sector, the localism message is more intuitive, because there are often noticeable differences in food quality. For banking, it is not difficult to shift some savings to community banks, credit unions, and other local financial institutions. For energy, in the U.S. there are increasing resources available to support weatherization and solarization, both of which shift non-local energy sources to local ones.

There is an argument in some portions of the social science literature on localism that it is caught up in a neoliberal logic, because some localist campaigns focus on altering consumption rather than bringing about social change through the state. Although there is some merit to the argument, my research also indicates that localist politics often are associated with a suite of local government policy reforms. From this perspective, localist ideology is closer to that of the social liberal or social democratic traditions than to neoliberalism. Policy reforms include government and institutional procurement preferences, community economic impact review, ending incentive programs for chains and fast food outlets, Internet sales taxes, restrictions on formula businesses (franchises) and chains, traffic restrictions, zoning that favors small businesses and community gardens, use of public space for small businesses such as farmers' markets, restrictions on tax benefits that accrue to cities that "rob" business from neighboring cities, and property-assessed clean energy financing (which funds weatherization and solarization by an incremental increase in property taxes or a utility bill).

One of the central problems encountered in localism is the low level of investment available to the locally owned, independent sector. Large banks are increasingly unwilling to invest in small businesses, and small banks and credit unions are a relatively small portion of the banking sector. Furthermore, in the U.S. household retirement investments are often locked into mutual funds, which invest in publicly traded corporations and are legally prohibited from investing in small, privately held companies. Thus, individuals who shift spending toward the local economy (such as a local food cooperative that sells local produce and fair trade goods) may find that their retirement savings are channeled into the very companies that undermine those consumer expenditures. Although households can select independent retirement funds in local banks and credit unions, the investment vehicles are generally low-risk, low-return options such as certificates of deposit, and there are almost no options for higher risk, higher return instruments. To some degree new Internet-based lending sites are beginning to address the need, and the Jumpstart our Business Startups (JOBS) Act of 2012 also included provisions that allow small investors to allocate up to 10% of the their incomes into small, privately held companies. Although the legal restrictions vary significantly from one country to another, I raise this issue only to point to the significant need to connect sustainable local economic development to shifts in savings and investment, which tend to be channeled into global capital. By failing to make the connection, the best-intentioned sustainable local economic development project will likely remain demonstration projects that do not scale up and that fade away over time.

In conclusion, the approach to sustainable local economic development that I have outlined here is only one model that has emerged in one country. There is a need to connect high-tech industrial clusters to the independent, small business sector, and there are also models of high-tech, export-oriented clusters that are based on local, independent ownership, such as the cooperative systems of Emilia-Romagna. Furthermore, the American model of mobilization based on the independent small-business sector is founded on an economic class that has a complex political history, from its progressive coalitions with farmers and trade unions in the early twentieth century to its connection with anti-government conservative politics during the late twentieth century. In Europe there is a greater role for local government involvement in sustainability and economic development programs, so an approach based more on the public sector may be possible. In Palestine, there are pressing political and economic issues that may make the problems and policies discussed here seem remote. But I think the general issue of managing the relationship between local and global capital in economic development strategies merits a comparative perspective that tracks what is happening on the ground in different regions of the world. I wish this group the best of luck in its work.

Citations to the works mentioned here are in the bibliographies of my books *Good Green Jobs in a Global Economy* and *Localist Movements in a Global Economy* (both MIT Press).