

WHY PRO-ACTIVE LOCAL GOVERNMENT IS NOW MORE CRUCIAL THAN EVER TO ACHIEVING SUSTAINABLE LOCAL AND NATIONAL ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES

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The twin crises of today

Since the 1980s we have effectively had an emerging crisis in developed and developing countries associated with globalisation, characterised by:

A 'race to the bottom' in terms of labour costs and working conditions

Intense competition with everyone on the planet, leading to some spectacular national/regional/individual successes, but probably far more failures (that is, very many localities now forced to 'specialise in poverty')

A 'hollowing out' of far too many local communities as jobs depart, taxes can't support services, redistribution measures cut, people leave, etc.

The Wall Street-driven crash of 2008 then massively exacerbated the ongoing globalisation-related problems:

- More than ever, we now know that markets simply do NOT produce the textbook socially-optimum outcome
- Likewise, private ownership/incentives and deregulation do NOT produce textbook socially-optimum outcome



The rise of 'local neoliberalism'

- Origin of globalisation is in the early 1980s and ascendance of neoliberalism ('market fundamentalism')
- This period also saw the rise of 'local neoliberalism' starting in UK and in USA as a particular type of Local Economic Development (LED)
- Sole emphasis thereafter in LED was placed upon:
 - **Deregulation** (especially business registration, rules about working conditions)
 - **Liberalisation**
 - **Privatisation** (only conventional private ownership tolerated)
 - **Commercialisation** (e.g., all LED institutions had to be run on 'full cost recovery' lines)
 - **Minimisation** (of the local state and all local state activities)
- Local neoliberalism strongly promoted in developing countries too, through World Bank, IFC, USAID, DFID, ADB, IDB, etc

The fall of 'local neoliberalism'

- But the results were quite disastrous for developing countries everywhere:



- Market and short term profitability of enterprises assumed to be the same as long-term sustainability – it is **NOT!** Led to numerous unsustainable boom-to-bust scenarios everywhere....many businesses are mobile and so simply leave....
- Privatisation generally transferred important assets from the local community to rich local elites, not improved efficiency....
- Market chaos and corruption increased everywhere thanks to **deregulation**
- Local economies **deindustrialised**, **informalised** and **primitivised**, among other things thanks to global preference for microfinance over SME finance

The fall of 'local neoliberalism' (*continued*)

- Emphasis on bringing in **FDI** was misguided – no real results for the expenditure committed as part of LED programs. **Luck** was most important factor!
- **'Full cost recovery'** relating to institutions was massive failure – led only to pseudo-consulting companies and asset stripping
- **Inequality** has risen stratospherically almost everywhere around the globe, and especially in the MOST market-driven local communities

LED in the post Wall Street crisis environment

- We are now beginning to realise that local government-led LED has a crucially important role to play:



- It can make up for where markets typically fail, such as an over-supply of certain enterprises and a deficit on others (e.g., green SMEs)
- It can promote the common good, as opposed to just the interests of the local business elite
- It can prioritise the long-term aspect to LED, not just short term profitability
- It can coordinate private and social sectors for socially-optimum (or just 'better') results – triangulation of local actors is often key to good LED
- It can aggressively promote local sustainable and equitable enterprise structures, especially cooperatives (coops are fair, equitable and they generally don't move to China!)

Basic prerequisites for determining effective LED

- Assess what theory says, but more important is to see what experience in similar conditions says is best to do in your locality.
- Understand the political ideology of policy, but yet also aim to seek out the best policies for the local community regardless of the ideology.
- Learn the lessons of policy successes, but also understand policy failures too.....

Some key LED issues

- **Addressing market failures**

- Education and training – must be geared to local enterprise development opportunities
- Make investments in pro-active business infrastructure (business development centres, incubators, cluster parks, etc)
- Developing key local financial institutions suitable to sustainable development (local state development banks, financial coops, social venture capital funds, credit unions, etc)

- **Coordinate private and social sector activity**

- as people like Ha-Joon Chang and Linda Weiss have brilliantly pointed out, successful and sustainable LED is largely a ‘collective endeavour’ not an individually-driven outcome

Some key LED issues (*continued*)

- Promoting a new sustainable local enterprise sector
 - **Regulate** to ‘crowd in’ most sustainable businesses and dynamics, not ‘here today, but gone tomorrow’ microenterprises – German experience useful
 - Role of local support institutions is vital – need is for proactive long-term focused institutions
 - Best idea is to focus on cooperative enterprises – for democracy, sustainability, equity and flexibility reasons is much better enterprise model than conventional model

Key example: Mondragon complex (Spain)

Mondragon complex in the Basque country of northern Spain



- Aim was always to support what ordinary local people wanted, not what entrepreneurs or 'capital' wanted
- Established world's best cooperative business support model in the 1960s
- Local people's bank (CLP) is excellent way of supporting sustainable cooperatives, not affected by recent crisis in Spain
- Crucially, local government has gradually built up its own capacity to do these things too, now promotes new start coops more than the

Key example: Northern Italy

Northern Italy and its cooperative systems

- Very pro-active local and regional governments with specialised staff
- Financial coops provide supply of financial support for all forms of local sustainable enterprise, though especially for cooperatives
- Ideological preference for coops after local entrepreneurial class generally supported fascism before 1940
- Strong trade unions realised that coops not a threat to their activities, but a very useful complementary direction
- Education system trains young people to view working in a cooperative as nothing out of the ordinary, helps to avoid stigma
- Big coops quick to subcontract to smaller coops, creating very efficient clusters and subcontracting chains
- Eventually, successful coops formed their own fund to further deepen the coop sector (investments, technologies, training, etc)



Key example: Brazilian LED



Brazilian LED model now gaining supporters:

- Triangulation issue important, and all levels of government are much better financed than before
- Local communities also receive help from BNDES and funds from Petrobras. Responsibility for top to help bottom...
- Network of Community Development Banks (CDBs) set up, local banks owned and directed by the community
- Financial Services Cooperatives (FSCs) owned by the communities. FSCs provide access to financial services for the poor on affordable terms and maturities.

Key example: Medellin, Colombia

City of Medellin in Colombia



- Scarred in 1980s and 1990s by narco-violence driven by poverty
- Decided on major policy change in late 1990s, with new emphasis on ‘inclusive development’
- New programs financed by efficient local state ownership of the utilities company, EPM (30% of EPM revenue goes into city coffers for economic and social programs)
- Major program of enterprise support infrastructure and a financial institution (Banco de las Oportunidades) established
- Failed to achieve much, but they learned lessons from initial failures....
- Now building more pro-active infrastructures geared to sustainable SMEs, not informal microenterprises..

Conclusion

- Old ideas about market-driven ‘institution-thin’ LED are now being phased out
- New ideas see local government as the principal actor in its own territory, though aided/advised by other sympathetic allies
- Key to successful LED is to create an ‘institution-thick’ environment and to plan for the longer term
- And to begin to focus on promoting enterprises with most chance of realising important economic and social goals
- Individual enterprise and self-help are categories of the bad old 1990s, today it is collaboration, consensus and cooperation that are seen as most likely to be able to repair all the damage caused

Thank you for listening!

Any further enquiries

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