Practice and potential for the future of territorial pacts

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by

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Introduction:

To avoid misunderstandings I am using the terms ‘Local Economy’ and/or ‘community economy’ synonymously for the term ‘territorial economy’, a term which is to my knowledge not very common in English.

In this context my intervention will explore and debate the following:

Restructuring local economies has become an increasing need in the follow-up of economic crises as well as economic polarisation together with social segregation processes all over Europe, and social enterprises play an increasing role in tackling these problems.

Although local economic development seems to be nothing new, because it must have always existed, the issue was just until recently not on the political agenda nor adequately recognised in traditional economic thinking. More or less there existed only two approaches: Microeconomics focus on the economic performance of the single enterprise, while macroeconomic approaches focus on the national economy and increasingly on the economy at a world wide level. In this view the single enterprise interacts directly with the national or the world economy more or less without any relationship to intermediate entities like neighbourhoods, communities, localities or regions. Although this might sound strange again, scientific efforts especially designed for the economic performance of neighbourhoods, communities, localities or regions were not seen as of any importance or necessity.

Four scenarios of local economic development

What do we mean with local economic development? We could distinguish between a descriptive or analytical approach and a more activity oriented or political one. From a descriptive perspective local economic development would cover all economic activities which happen at local or regional level and/or have any impact on the localities.

But far more interesting is the political perspective of local economic development: It is definitely more than just “economic development at local level”; it is a special way or certain type of economic development and different from other forms or types of economic development, and the argument here is that social enterprises play a key role in developing such strategies. To understand its specific character I will present four scenarios:

The first scenario is called “development from above”: The main actor here is the state, working top-down from central government to regional government and local authorities. In this scenario the local actors, people, enterprises as well as authorities wait for decisions as well as resources coming from above, because they believe that the state is either mainly responsible for all kinds of development or has only the power to do so. This attitude is often found in societies with centralized governments, not only in authoritarian regimes, but also in strong welfare states. This scenario is usually accompanied by a high degree of dependency and arbitrary measures. And it is finally not working anymore, if the state runs into political or economic troubles.

The second scenario is called “development from outside”: It often follows the breakdown of the first option. What they have in common is that the local actors believe they cannot do anything on their own. Therefore, outside “investors” are needed to bring in the necessary resources, especially money. In all parts of the so-called “underdeveloped” world everybody is desperately looking for investors. I wonder where these strange animals live and how to attract them. All I can see is a disastrous competition between communities, regions and countries where only the investor benefits from an inevitable dumping process with low wages, property prices, tax reductions and so on. Furthermore, communities which try hard sometimes spend their last available resources in dubious infrastructural programmes which should attract investments like golf courses, luxury hotels and conference centres, industrial sites and office space, business development centres and so on. And like
in any other competition the winners are always only a happy few, the majority are losers. I am not arguing against infrastructural programmes as such, but there is definitely something wrong, if they are only designed for the needs of outsiders. And even in case of success the objectives of the investor might not be the same as the community ones’. Financial investments of this type are nowadays highly dynamic and flexible so that they can easily move from one place to the next, if they can find better conditions or if plans have changed. From the viewpoint of “sustainability” attracting investors from outside is a very risky business.

The third scenario could be called “wait and see”: The local actors remain more or less passive waiting for things to come. Some might look at it as a quasi natural process of selection, some might have resigned as a result of the failures of option one and two. The traditional “solution” in this scenario is migration. In fact, this is the most popular option, although it becomes more and more difficult to find places to go, not only because of political restrictions, but also for economic reasons, because the islands of prosperity around the world become smaller and smaller in size and numbers.

The final scenario I would call “development from within”: As option number one is dominated by the state, number two by private investment and number three by fatalism, in this scenario the local actors, the people themselves play the key role. And here we are at the heart of Local Economic Development: It starts when people realize that neither the state nor the market economy serve their needs or solve their problems, and if they are unwilling or unable to leave their homes. In this situation people embark (usually after a period of not successful protesting or campaigning) on strategies of economic self-help which often lead to the foundation of new types of (social) enterprises.

One of the pioneers of local economic development, Sam Aaronovitch from the Local Economy Policy Unit in London (Aaronovitch 1996; Birkhölzer 1999) put it in a nutshell: “There is no escape from self-help!” To illustrate that I will present two short examples. Although these examples happened outside of the European Union, they have lessons to tell for Europeans, too:

When the Soviet army had to withdraw from Eastern Germany their former members had to be reintegrated in civil life. In Moscow for instance some of them had been placed in typical huge housing blocks of the type which you can find in almost all big cities not only in Eastern Europe. The houses were in bad condition, some of them empty or devastated, and the surrounding neighbourhood was lacking almost all necessary infrastructure from shop keeping to health care facilities. The people living in such neighbourhoods of up to 8000 – 10.000 people were waiting for years that the responsible authorities should carry out the necessary improvements. As nothing happened some of the former army members took the initiative to form a “self-managed neighbourhood association” whose representatives were democratically elected from all inhabitants in the neighbourhood (two delegates per staircase). The association acted as a neighbourhood or community enterprise, started to take over responsibility for the maintenance of the housing blocks as well as the delivery for necessary proximity services. They negotiated successfully with the authorities about their right to organize and the permission to work in their neighbourhoods. Of course, they had to invest a lot of volunteer work at the beginning, but finally they were able to make an income from their services and employ people on a regular basis. The idea spread out in a lot of other neighbourhoods in Moscow as well as in other parts of Russia, so that we could identify at a community economic development seminar in 1995 up to 250 “self-managed neighbourhood associations” in Moscow only. They even achieved to get the right of building such self-managed associations written down in the new constitution of the city of Moscow. (Unfortunately, this story has never been published.)

The other example happened in the province of Eastern Cape in South Africa at the end of the apartheid period (Nussbaum 1997). The municipality of Stutterheim consisted out of a small town of about 10.000 white inhabitants surrounded by so-called “townships” with a black population of about 40.000. The living conditions there were horrible, housing at the poorest possible standard with almost no fresh water and sewage facilities. At the peak of the political conflict against apartheid the black community decided on a consumer strike and not to buy anymore anything from the white shop keepers. The boycott lasted for almost a year and the white community was for the first time confronted with the possibility of economic break-down and the perspective to be forced to leave the
area. In this situation a group of people around the white mayor and the leader of the black community started – also for the first time – to talk to each other in a series of meetings which they had to keep secret. Of course, a lot of patience and courage was needed to re-establish trust between the communities, but in the end the “Stutterheim Development Foundation” was established, a local partnership which is equally set up, owned and controlled by representatives of both communities. A local development plan was agreed by which young people from the black community should be trained and employed to improve the living and housing conditions in the townships. After the political change Stutterheim became a model for Local Economic Development in other parts of South Africa, especially under the aspect how local development could be combined with the necessary process of peace and reconciliation. In the following years the foundation managed to build a lot of new houses, streets, gardens, water supply and sewage systems, schools and health care centres etc. and created a slowly, but steadily growing wealth not only for the first time for the black but although surprisingly for the white population. All this was achieved again with a lot of volunteer work and commitment invested by local actors and – at least at the very beginning – with locally available resources only. Paradoxically, help from above and outside was only offered later after they had become known and accepted for what they had achieved out of their own capacity.

The examples illustrate one of the basic principles behind local economic development which was characterized in 1986 by another pioneer, James Robertson (Robertson 1985), as: “Local Work for Local People using Local Resources”.

**What are the basic principles behind local and/or community economic development?**

As the examples show – and we have empirical evidence from a lot of others – local economic development is a special economic self-help strategy originally invented by and for losers, disadvantaged social groups and/or disadvantaged communities on local or regional level. It is mainly based on practical experience, improved by trial and error including learning from successes and failures of others. Therefore, networking became a crucial element in developing local economic strategies. It is important to notice that these strategies have been invented or started in different parts of the world with totally different geographical, cultural and political background, more or less at the same time and not necessarily knowing from each other. Although these initiatives were not based on a common theoretical concept, we can identify a number of common underlying principles:

**For the common good**

First of all, all local economic initiatives are based on a strong local and/or community identity and commitment. The importance of this principle might be illustrated by the fact that it reappears as a key element in modern social capital theory. We come back to that later. But for the time being we should highlight another aspect: Local economic initiatives understand their locality or community like an enterprise or company as a coherent and independent economic system whose objectives are not individual aims, but what is called “social profit”, “community benefit”, or “for the common good” (Daly/Cobb 1990; Pearce 1996; Birkhölzer 2006).

**An integrated holistic approach**

The second most important principle is an integrated or holistic understanding of the terms “economy” or “economic”. It includes not only the production of goods and services, but also the reproductive sphere of environmental, social and cultural activities. In this view the Local Economy is seen as a cyclic process of production and re-production, and if we neglect to reproduce our environmental, social and cultural resources we might end up with the breakdown of the locality and its community. From the point of view of a single company the survival of the community where it is located is not always necessary, and the same applies from the point of view of a national economy whose representatives are not necessarily interested in the survival of certain villages, towns, cities and even regions. Unfortunately we can find a lot of examples to proof this argument all around Europe (from Cooley 1992 to Commenne 2006). In the end it is only the local people who are really interested in the
survival of their community. It seems that all localities have a limited reproductive capacity which is
constructed out of its environmental, social and cultural resources. If these resources are stressed or
exploited without adequate reinvestment, the Local Economy will lose its capacity to survive.
Revitalising the reproductive capacity has therefore become the first and overall objective of local
economic initiatives and their enterprises.

Serving unmet needs

The third principle is a shift of paradigm about the final aim of all economic activities: It is definitely
not about making money. Money in the end is not a value in itself, but only a means for exchange.
Therefore, all economic activity should be finally about serving needs. This statement seems to be
taken for granted, but we all know examples of economic activities where you can hardly identify a
real need to be served. Most economic policy nowadays is dominated by a so-called “supply-side”
approach, which means that all interventions focus on the aspect of marketing the produced goods and
services in the most profitable way, while others with no or even lesser profitability should be left
aside or removed from the market. Local economic initiatives instead focus on the “demand-side”,
especially by identifying and serving the so-called “unmet” needs. But here again we have to avoid a
misunderstanding, because in traditional economic thinking “demand” is only accepted where it is
accompanied by an equivalent purchasing power. As a consequence, needs of people or communities
with low levels of purchasing power are not served and even neglected. In these cases, the state again
should be able to compensate and deliver the necessary goods and services. But in communities with a
low level of purchasing power the local state faces the same problems, because its income from taxes
and revenues is limited as well. It is a vicious circle, and a shift of paradigm is necessary to find a way
out of it: The problem is not how much private or public expenditure is available, but how new
sources of income can be generated locally. Paradoxically, the biggest untapped potential of new
sources of income is buried in the unmet needs at local or regional level.

This argument was put forward for the first time by the former president of the EU-Commission,
Jacques Delors, in the White Book on growth, competitiveness and employment in 1993 (European
Commission 1993). In the following years a “Forward Studies Unit” explored the economic potential
of so-called “Local Employment Initiatives / LEIs” and collected best practice examples from all over
Europe. Its final conclusion was to identify a hidden potential for economic growth as well as
employment in 19 fields of activity at local level (European Commission 1995). Together with the
results of our own research (Birkhölzer/Kistler/Mutz 2004; Birkhölzer 2006) these fields could be
summarised as follows:

- serving basic needs like food and housing,
- decentralised and small-scale technical systems for energy, transport, water supply and
  waste disposal,
- proximity or neighbourhood services of all kinds,
- local cultural activities and cultural heritage,
- leisure and recreation services,
- environmental protection, prevention and repair,
- municipal infrastructural services.

Re-establishing local economic cycles

But – as a fourth principle – all this activities should not be carried out as single, isolated activities, but
put together like a puzzle to shape an integrated local action plan to re-establish local economic cycles
(Douthwaite 1996). One important tool in this context is watching the money flows within the locality
or community, what comes in, what goes out, and what happens with it in-between. To re-establish
functioning local economic cycles money should circulate within the local community as much as
possible, and as a rule each euro or pound sterling should circulate at least three times within the
community before it leaks out again. To illustrate that I will present another example:
The people from Wulkow (Birkhölzer 2000), living in a small village of 150 inhabitants near the Polish border in East Germany, lost almost immediately after the unification of East and West Germany all their job opportunities by the closing down of a local agricultural cooperative and at the same time of a big electronic company in the nearby city of Frankfurt/Oder. As most of them did not want to leave their homes, they put their efforts together to find alternatives for to make a living out of their own available resources in the village. At the beginning they occupied a disused four-storey grain store and converted it into a community development centre, opened a market for locally produced bio-dynamic food, started to develop new ecologically sound processing techniques, especially by using locally-based renewable energy systems, and ended up establishing their own local power station and plant sewage system. Today the villagers sell their knowledge and experience to others and own an international seminar centre for rural development. The reason behind this success story was rather simple: to generate and circulate work and income locally. Although all activities where done on a small scale, they fit into each other and formed a chain of activities which could be called a “local exchange and trading system”: Income is circulating from the market to the households, from the households to the power station and the sewage system where it finances new employment, while the wages are spent for local services and/or in the market and reappear as income in the households. The most difficult thing is to find the starting point for to set the cycle in motion. Of course, usually money is the trigger, but if you do not have it, the only way to start is to invest (at least at the beginning) volunteer work.

One of the most disastrous attitudes is if people believe, they cannot do anything without access to money. This leads either to the “wait and see”-scenario or to the dependency on donors which might have their own ideas about what their money is for. But people – almost everywhere in the world, most recently after the economic collapse in Argentina – have demonstrated that it is possible, to exchange goods and services without using money at all. This so-called LETS-schemes (“Local Exchange and Trading Systems” in English, “Systemes d’echange locales/SEL” in French, “Tauschringe” in German) are working on the basis of exchanging working time (Lang 1994; Birkhölzer/Kistler/Mutz 2004; Birkhölzer 2006): Everybody who has spent working hours for producing goods and services for another member of the system gets a credit to receive goods and services in working hours of the same amount. All activities are listed in something similar to a bank account: Some just use the working hour or “time dollar” as the unit of exchange and then it might be called a “time bank”, others use a kind of local or regional currency and issue vouchers which again are based on the equivalent of working time. Therefore, if real money is used or any equivalent, it is the investment and exchange of working time which constitutes the local economic cycle and keeps it in motion.

**Building and improving social capital**

But if we start – as suggested – from the demand side, the unmet needs, what happens at the supply side, what are the available local resources? Again, if there is enough physical or financial capital, there will be no problem. But localities or areas of economic crisis are usually characterized by the lack of it. Therefore – as a fifth principle – the most important resources are the capacity of the local people, its knowledge and abilities. It is striking that especially in localities or areas of economic crisis these capacities of the local people are often underemployed and even neglected. What a waste of resources to keep thousands of capable people of all ages in unemployment or living on social benefits. I am not arguing against social benefits at all, but they are in principle targeted for those people who are not able to work and to make a living out of their own capacities. But there is definitely something wrong with the political and economic system, if we have to pay millions of unemployed for doing nothing, although at the same time a lot of work needs to be done. Local Economic Development is therefore about mobilising these untapped resources of local people and turn it into real productive capital.

Why do we use the term “capital” in this context? Economists believe that all production of goods and services needs the allocation or combination of three basic factors of productivity: labour, land and capital. Traditionally the term “capital” is related to “physical” capital (raw materials, machinery, tools etc.) and “financial” capital (money) only. But in modern economic thinking “human” capital, i.e. the
personal abilities, capacities and knowledge of the workforce has become equally important. Therefore, education and training is nowadays seen as an important part of economic development in general. But within the last decade a new term, the “social capital” appeared on the agenda (Putnam 1993, 2000) and found its way into the economic and employment policy of the European Union within the framework of the community programme “Local Social Capital”. The term underwent a lot of misunderstandings, like “local capital for social objectives” or was mixed up with the meaning of the term “human capital”, but in principle it is nothing new, although it seems to be almost forgotten in economic theory and practice: It is the power of co-operation! It is nothing which can be owned individually, it happens only between people. It is therefore a collective set of resources, built on inter-human relationship. To understand more about character and nature of this specific type of capital, we had the opportunity to participate in a transnational research project on “The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe/ CONSCISE” (CONSCISE 2001-2003): The main objective was to identify and proof operational criteria to find out, how social capital could be measured, produced and re-produced. These indicators were:

- first of all the level of trust between the members of the community or organisation as well as between the ordinary members and its leaders or authorities,
- the size and quality of reciprocity, i.e. relationships on a basis of mutual help for exchange between the members of the community or organisation,
- the existence and quality of generally accepted norms of behaviour between the members as well as towards outsiders and newcomers,
- the strength and quality of identity with and commitment for the community or organisation,
- the number and quality of social networks of formal as well informal type,
- finally, but not of the same importance, the quality of information channels within and outside the community or organisation.

These criteria were proofed in a series of case studies in different countries, and it became very clear, that there is a hierarchy as well as a relationship between them. Trust seems to be the overall objective, while reciprocity, local identity and commitment as well as accepted norms of behaviour are the components on which trust is built. On the other hand social networks and communication channels are practical tools to re-establish or improve the level of trust and its elements. But one of the most important findings of the empirical research was the fact that social capital is able to compensate the lack of physical and financial capital. Furthermore, social capital can be invested as any other capital, not only for realising social and/or community-oriented objectives, but also for accumulating the necessary resources for further development. Therefore, building and improving social capital becomes one of the most important strategies of local economic initiatives.

Let me illustrate that with another example which happened on the island of Papa Westray in the North of Scotland (Birkhölzer 2000). Living far out in the North Sea it happened that from one day to the next the local shop as well as the ferry boat, the only two connections to the rest of the world, went bankrupt. But as the islanders depended heavily on these two facilities they came together and formed an island cooperative, at the beginning with the only objective to reopen the shop and the ferryboat. This was only possible by investing volunteer work collectively. As the services of the shop and the ferryboat were regularly sold, income was generated, and in the end a shopkeeper and a ferryman could be employed again. As the islanders were now used to work part-time for their co-operative, they were looking for new projects: converting disused farmhouses first into a youth hostel, later into a family hotel, establishing a nature reserve as well as improving archeological sites, combined with organizing package tours to the island., reopening the local school and so on. The co-operative and its achievements were more or less built on social capital only which has become the source of a modest, but steadily growing wealth.

Community centred development

But what to do in localities or areas were this social capital is weak or affected by conflicts and/or economic depression. In these cases local economic development will not be successful without rebuilding social capital, especially trust. Re-building the social infrastructure might become even
more important, if not the pre-condition of rebuilding the physical infrastructure. Therefore – and this is the sixth or final principle – the local economic development process has to start with at the first glance non-economic activities which are centred around community building and community development.

**Innovative tools and instruments developed by local economic initiatives**

All these guidelines or principles have not been developed from the desktop, but are the outcome of empirical research based on the successes and failures of practical initiatives. There is nothing like a model or recipe of local economic development which can be franchised or replicated everywhere. To the opposite, each locality or community has to find its own appropriate solution. The reason is that the real good or “best-practise” examples are perfectly adapted to their special local conditions. It is one of the big mistakes that people try to copy successful examples and then become disappointed, if they fail because the conditions are not the same. But this does not mean that we are not able to learn from each other. What we can do, is to identify the tools and strategies which are behind the successful examples and re-implement these tools and strategies in each locality or community. Technologie-Netzwerk Berlin e.V. together with its partners from Italy, Poland and the UK has just recently produced a Learning Package for the Local Social Economy which collects empirical and theoretical knowledge from a wide range of international experience in the field.

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