Local Economic Development

A European-wide movement towards more economic democracy and social justice

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“There is no escape from self-help ...” (Sam Aaronovitch, in interview, 1987)

THE BEGINNING

When I met Sam Aaronovitch for the first time in a very small office at the former South Bank Polytechnic he presented me with the first issue of a brand new journal called Local Economy, which opened with John Benington’s article on the new Local Economic Strategies developed by the Greater London Council (GLC) and other Metropolitan Councils in the early 1980s (Benington, 1986). Although this new approach seemed to have disappeared with the abolition of the GLC and other restrictions on local authorities by the Thatcher government, I felt as if we had just discovered the missing link.

To explain the background, the visit was part of a research project carried out by an unemployed self-help group from Berlin founded in 1983. We were searching for long-term strategies to combat mass unemployment. Although unemployment in Germany at that time was only half the level of today, we had already come to the conclusion that the nature of unemployment had dramatically changed from cyclical unemployment to a constant slow rise over time even in periods of economic upswing. Therefore, the causes of unemployment and strategies to counter it had to be sought elsewhere: in the means of production, and in the basic economic structure itself.

Looking for alternatives, we had already investigated the “Jobs for a Change” programme of the GLC during a first visit in 1985 (ASTA TU Berlin, 1986), and at our second visit in 1987 we asked if or how all these wonderful projects and initiatives we had explored could survive without the help of a GLC. The answer was quite simple: while most of the projects and initiatives that depended on public money had closed down, sooner or later, given cuts in public expenditure, another group of initiatives had emerged where local people had taken on economic and financial responsibilities, some taking up...
ideas of community economic development from Scotland, Ireland and even Canada and the United States. Despite the rhetoric, the GLC had followed a more or less traditional top-down approach: the bottom-up Popular Planning Unit (PPU) was still in budget terms a marginal institution. No doubt, the GLC was implementing some of the most advanced concepts of citizen “participation”, but real active involvement or development from below was still the exception. This is partly understandable as local authority interventions will inevitably have a certain top-down character, but they will only work if built upon active citizenship. Maybe the GLC was not given the time to develop the kind of identification between the people of London and their representatives which could have prevented its abolition.

Learning from European experiences is not only about adopting “best practice” models, but also about drawing lessons from the failures. In the case of the GLC we learnt that we need to develop criteria for the evaluation of local economic strategies, which became the starting point of a four-year research programme (1988—1992) on “Exploration and evaluation of local strategies in crisis areas” (IFP Lokale Ökonomie, 1990; 1991), carried out by an interdisciplinary research group which adopted its name from Sam’s programmatic new journal. At that time the term “local economy” was totally unknown in Germany – in contrast with the present situation where it is widely accepted. But the great message from that small office was not only a new name, but a full new agenda: Local Economic Development has become a key phrase for employment and regeneration policies in crisis regions. And the demise of the GLC was definitely not the end of local economic strategies, but the beginning of a growing movement all over Europe.

One of our first tasks was to delimit the subject and try to define what local economic development should be about:

- to build upon the untapped resources of local people;
- to focus on the unmet needs in the locality;
- to re-establish local economic networks within local communities; and in doing this
- to create socially useful work for local people.

Although these criteria have been seen as provisional, they have proved to be appropriate.

Sam Aaronovitch may not have agreed with this definition in its entirety; it was indeed an ongoing debate. He was increasingly concerned that globalisation would limit the feasibility of local economic strategies. He gave a prophetic lecture at the “People’s University” in 1989 in West Berlin on “European capital concentration and its impact on cities and regions” (Aaronovitch, 1989), forecasting the end of the post-war political arrangements more than a year before the real breakdown of the Communist bloc.
He spoke of the changing nature of world capitalism years before the term "globalisation" was introduced. At the same time he pointed out that the "centralisation" of capital and power would, paradoxically, increase the importance and relevance of the local arena.

Indeed, when asked how we could achieve all the necessary changes in the economy, Sam replied: “There is no escape from self-help …”. I am not sure if he was totally aware of the full implications of what he had said, but for us it became a key phrase, a way of thinking which changed our political attitudes in the long run. We moved away from attempts to lobby through traditional political institutions to direct interventions into the economic sphere by developing, promoting and setting up self-managed, independent economic structures, for and together with the unemployed, the poor and the otherwise socially excluded.

Starting from our own situation as more or less long-term unemployed living in an area of economic crisis, the concept of “economic self-help” formed not only the framework for our own economic reproduction through “self-help enterprises” (eg the PAULA Association), but spread out all over Germany, creating a wide range of new and innovative economic activities which can be seen as a new (third) economic sector or a new (social) enterprise culture.

A NETWORK OF LOCAL ACTORS

A European Network for Economic Self Help was founded at a congress held in Berlin in 1992 (Zukunft im Zentrum, 1993), which attracted about 600 people from all over Europe. One of the most exciting experiences within this Network was that the concept of “economic self-help” and “local economic development” arose more or less autonomously in different European regions at about the same time. Given the range of historical, cultural and political differences, it is striking that these diverse local strategies are built upon similar principles which form the basis for the development of a common understanding, common strategies, and a common vision of the future.

It is not possible here to describe the scale and variety of the local economic development movement in Europe. We can only highlight some aspects. But there is also a problem of methodology: the examples of so-called “good practice” – especially if they are really good examples – are often not transferable between localities. They are successful precisely because they are tailor-made to the conditions of a specific locality. It is therefore not possible to transfer the good-practice model to a locality where the conditions are not the same. As a rule, each locality has to develop its own appropriate solution. What are transferable are the leading principles, instruments and techniques underlying the model which lead to success or failure. Our efforts were therefore concentrated on developing a set of tools and principles that could be
used by anyone, anywhere. The provisional result consists of a cycle of nine consecutive steps (IFP Lokale Ökonomie, 1994):

1. To analyse the existing local economic and social structures, and in particular the existing shortcomings and available resources.
2. To mobilise the hidden capacities, skills and knowledge of ordinary people, who are usually excluded from planning or decision-making.
3. To offer space and support structures for learning and working, campaigning and project development.
4. To build up decentralised networks for co-operation, exchange of experience, goods and services, horizontally and vertically.
5. To organise advise and training facilities, in particular in the field of self-management, empowerment and economic self-help.
6. To make available research and development facilities for socially useful products and services.
7. To create fair trade and social marketing mechanisms, in particular by active involvement of consumers, clients and other people in need.
8. To establish new forms of community-oriented and not-for-profit enterprise.
9. To establish special local financial instruments, including non-monetary or time exchange systems.

This concept was not elaborated theoretically. It is based on a range of detailed case studies and other empirical material from inside and outside the Network. One of the most important examples was the way the GLC started to cope with the unemployment problem: "Are Londoners so well housed; are their homes so warm and so well furnished, are Londoners so well clothed and so healthy that there is nothing for 400,000 unemployed people to do?" (Lorenz, 1995; GLC, 1985). The "London Industrial Strategy" is still a unique document showing that nearly half a million additional jobs could have been created by concentrating on London's problems alone. The question is not how many of these jobs could really have been created. What makes the document unique is the approach — not to give up, but to try to find real alternatives for job creation. It took more than 10 years for a similar document to appear (European Commission, 1995), this time presented by a Forward Studies Unit of the European Commission (under Jacques Delors), focusing again on the job creation potential of local employment initiatives. This presented 19 fields of activity based on positive examples from all over Europe. But if we compare those documents we can still see differences: while the latter is an excellent summary of more or less sectoral approaches, the "London Industrial Strategy" was an integrated analysis of a whole local economy including household and domestic service, which has not been followed up by any other municipality as far as we know.
Some of the weaknesses of the GLC experiment have already been discussed. In some ways it was the failure of local authority-led approaches that stimulated the rise of community-led approaches. Originating in Ireland (McDyer, 1982), community co-operatives spread out over Britain, beginning in the rural areas of Scotland, moving on to cities like Glasgow and Edinburgh and further south, forming even bigger community development trusts and regional community enterprise networks (Pearce, 1993). As is well appreciated, these were not always successful, but in the long run they were one of the most innovative developments of the last decades.

Similar approaches can be found in the:

- rural community co-operatives in Sweden and Finland (Mannila, 1996; Ronnby, 1994)
- social co-operatives in Italy and Spain (Leonardis et al, 1994; Mattioni and Tranquilli, 1998)
- regional co-operatives like the Mondragon Group in the Basque Country (Morrison, 1991)
- women's co-operatives in agriculture and tourism such as in Greece and Portugal
- neighbourhood-based enterprises like “Services de Proximité” and “Réglies de Quartier” in France (Berger and Michel, 1998; Hatzfeld, 1998; Laville and Gardin, 1996; Laville, 1998)
- buurtbedrijfswinkel in the Netherlands and Stadtteilbetriebe in Germany
- employment and training companies (Beschäftigungsgesellschaften) in the industrialised areas of East and former West Germany (Birkhölzer and Lorenz, 1998a and b)
- self-help enterprises of the unemployed and of disadvantaged neighbourhoods which have now emerged in Eastern Europe and found even in Russia (estimated 250 in Moscow alone)
- self-managed enterprises of the Green and Alternative movement
- and finally local exchange and trading systems of all kinds in the UK, Ireland, France, Belgium, the Netherlands, Germany, Austria and even Switzerland (Douthwaite, 1996)

In general, the co-operative movement is being revived, especially in Southern Europe and Scandinavia, where the traditional co-operative movement was not discredited as it was in Central or Eastern Europe. For instance, in Italy about 3,000 social co-operatives were established in recent decades, originally to take care of people with mental health problems in the community, often following the closure of traditional psychiatric institutions. They now serve all kinds of disadvantaged people, developing a concept of integration and offering useful work and full membership in the co-operative. The social co-operative movement in Italy has achieved a unique legal framework
(Instituto Italiano di Studi Cooperativi, 1992) that offers some advantages in market competition. The co-operatives receive subsidies for employing disadvantaged people, but to avoid ghettoisation the workforce has to be mixed, with at least half the workforce not disabled. The Italian example is a best-practice model for the integration of the socially excluded which stresses the importance of work for the dignity of human beings. The worst thing about being unemployed is not the loss of income but being prevented from full participation in the wider economy and society.

Therefore, the concept of socially useful work plays a key role in local economic development, and I will highlight the argument in two ways. The first concerns the role of unpaid work in local economic development. Unpaid labour is inevitable if any local initiative is to get off the ground, but this work should not be confused with traditional volunteering. In both Papa Westray in the Orkneys and the village of Wulkow near Frankfurt/Oder in East Germany (Birkhölzer and Lorenz, 1997), when the inhabitants were suddenly cut off from the rest of the country, they had to undertake unpaid work just to keep their villages going. This was not a voluntary decision but a necessity, because unpaid labour was the only available resource. Unpaid work in local economic development is not like voluntary activity for charity. It is an investment in your own future, because it is the only way to create a surplus and turn it into the necessary capital for further developments. The benefit is similarly not a financial return but a better quality of life.

The other fundamental is the concept of “work space” for the unemployed. While individual unemployed people might be isolated, like excluded villages or islands, most of their neighbours will not share the experience. Therefore it is much more difficult to find a platform for solidarity and positive action. In this situation unemployed self-help initiatives like the PAULA Association in Berlin-Wedding (Birkhölzer, 1993) came to the conclusion that unemployed people need first of all a real workplace where they can go to get together and find both working facilities and colleagues for advice and debate. The PAULA Association turned parts of a disused factory in one of the former industrial districts of Berlin into such a workspace centre for its own members and for other unemployed people. The association is not able to pay wages out of its own resources, but the workplace is given for free. The only obligation was to create ideas or develop projects which could be economically viable, starting from the real motivation and existing capacities or skills of the individual. If successful, the project becomes part of a not-for-profit enterprise system and has to contribute to the maintenance of the centre, and to support the other activities of the association including helping new initiatives to get off the ground. Again, this was not always a success, and the members could not always get sufficient financial return for their work. The association, nevertheless, has just recently celebrated its 15th
anniversary, incorporating the Interdisciplinary Research Group Local Economy, the Technology Network Berlin, the Communal Forum Wedding, an education centre for economic self-help, a trading company for local services and the co-ordinating office of the European Network for Economic Self-Help and Local Development.

THE BACKGROUND: ECONOMIC POLARISATION

Local economic initiatives are all affected by globalisation. This, of course, is nothing new. As Karl Marx pointed out more than 100 years ago, economic growth leads to the concentration of capital in fewer and fewer hands, while also transcending regional and national boundaries to create international or transnational conglomerations, which have a tendency towards oligopolistic or monopolistic practices.

The traditional reformist response of the socialist workers' movements was to gain political power within their nation states in order to attempt to control or at least counterbalance the negative effects of the capitalist system through laws, regulations, social security systems and so on. They argued that the surplus created by the private sector could be redistributed by the nation state in order to promote social justice and benefit the majority of people.

This concept operated for nearly a century, leading to the creation of a mixed economy where all needs which the private sector could profitably meet were served by the private economy, and other needs by the state. After the second world war, the people of Europe benefited from slow but steadily growing wealth creation, but democratic participation was always limited to the public sphere, while the private sector remained outside democratic control even in the most advanced social welfare states such as those in Central Europe or Scandinavia. However, during the 1970s and '80s this so-called "social consensus" was gradually eroded, partially as a result of the breakdown of the state-controlled economies of Eastern Europe which cast doubts on the argument that these systems provided more extensive social welfare. The so-called "competition of the systems" (capitalism vs socialism) was rendered obsolete by the fall of the Berlin wall.

While this was a factor, of more importance were the consequences of structural changes within the capitalist economy of the North. First, private companies became less reliant for their profitability on their existing workforce, and the political power of trade unions and social welfare organisations also declined. This led to phenomena such as "jobless growth" (Aaronowitz and Difazio, 1995), whereby economic growth did not necessarily lead to job creation. Therefore, while statistics for most European countries point to a continuous increase in GNP, unemployment and poverty are growing at about the same rate.

Second, at the heart of processes of globalisation, the private sector gained
Local Economic Development

more international flexibility, leading to a quasi "exterritorial status" whereby they operated as "global players" increasingly outside of national control. A further blow to the social democratic vision of taking control of the national economic policy was the creation of supranational "signal markets" in Europe and elsewhere. Finally, there are dramatic changes within the global economy itself as it fails to expand at the rate anticipated by global players. The competition in world markets has become more aggressive, leading to an antagonistic economic polarisation between winners and losers, haves and have-nots, and the gap between rich and the poor continues to grow. Nearly all the big cities such as London, Paris or Berlin are divided into two, and sometimes the borderline between the rich and the poor changes from one side of the street to the other.

Consequently, growing mass unemployment (20 to 30 million in the EU alone), poverty, and social exclusion, are – for the first time this century – not the consequences of periodic economic crises, as was the case in the so-called "world economic crisis" of 1929/30. Economic development can therefore no longer be uncritically identified with conventional concepts of economic growth (Douthwaite, 1992). It will not necessarily lead to the development of so-called "underdeveloped" areas. It simultaneously creates "over-development" on one side and "under-development" on the other, not only between North and South, but also within industrialised countries themselves, as Europe's economic landscape becomes a patchwork with islands of prosperity surrounded by a sea of crisis-hit regions. Within these regions mass unemployment, poverty and ecological damage combine to form a downward spiral of economic and social decay such as that in the east of Germany, where 47 per cent of the former GDR workforce lost their jobs within a period of three to four years of unification (Bauhaus Foundation et al, 1996).

To conclude: globalisation polarises the local economies, and economic development in the traditional sense will make things even worse. We therefore need not only a shift of paradigm from the global to the local economy, but also a radical change in practical development strategies. Instead of focusing only on either market forces or the welfare state – which appear to be only two sides of the same coin – a new approach, which goes beyond the dichotomy of market and state, is emerging. This focuses on the untapped resources of the people.

THE PERSPECTIVES: SOCIAL ECONOMY AND THIRD SECTOR

An international Symposium entitled "Local Economy", held at the first European Congress in 1992 in Berlin, was opened with the hypothesis that within the different local economic strategies a new "third sector" of the economy was emerging (Zukunft in Zentrum, 1993; IFP Lokale Ökonomie, 1994). At the second European Congress in Dessau in 1994 (Bauhaus
Foundation, 1996) the character of this new sector was described as the "social economy", but the term remained rather vague and somewhat contradictory, particularly in the way in which it was used by the European Commission. To clarify these uncertainties an international expert group was established to explore "key values and structures of social enterprises in Western Europe", with the support of DG XXIII (Birkhölzer et al, 1997), followed by transnational research on "Community economic development and social enterprises in six European countries", with the support of DG V (Technologie-Netzwerk Berlin, 1998). At the third European Congress in Liverpool in 1996 (Liverpool City Council et al, 1996) the question of "Quality standards in the social economy" was raised. And the year 1998 saw the first European Trade Fair for Local Development at the site of the traditional Industrial Trade Fair of Leipzig.

The "new sector" has not only become visible, but also politically acceptable, especially when the first EU Programme on the "Third Sector and Employment (TSE)" was announced at the beginning of 1998. We now need more clarity and a common understanding about definitions and limitations of this sector. The following presentation, based on the results of the various research activities within the European Network, is intended as a contribution to an open and democratic debate about these issues.

The starting point is an analysis of European economies. While traditional economic conceptions identify only two economic sectors (public and private), in reality neither the private sector nor the state serve the entire needs of the population. Beyond the household economy, a third sector grew from the exclusion of people from the first as well as the second sector. Left out on their own, they had to find ways to survive and a shadow economy came into existence. And as discussed above, conventional economic growth will increase the size of this shadow economy and the importance of a new third sector, both as a result of further rationalisation in the private economy, and redundancies in the public sector.

The shadow economy is highly dynamic, and within it we can distinguish two major developments: First, the growing importance of the informal economy, which emerges from three fields:

- the neighbourhood and self-help economy;
- the family or household economy; and
- illegal forms of economic activity.

This sector does not necessarily emerge in a positive way. Illegal forms can be the starting point for criminal activity within the shadow economy, which gradually moves from families and neighbourhoods to whole towns and regions – with frightening examples in post-communist Eastern Europe. Given this, the development of a formal social economy sector becomes even more important.
Of course, there has always been a third sector in the sense of a non-profit and non-economic field of activity, e.g. domestic work, non-governmental charities, foundations and associations of various kinds for educational, cultural, social and other purposes. In most European countries the legal framework offers only two possibilities:

- either a “for profit” status, and then this is called “economic” activity;
- or a “non-profit” status, which is then seen as “social”, “educational”, “cultural” activity, in which economic activity is either prohibited or severely limited.

This concept of a third sector, based on the division into an economic and a social sphere, is no longer appropriate.

European integration will weaken the position of nation states, and therefore national social security systems, while an adequate Social Union will not accompany economic integration. There is no telling what the full consequences of this process will be, but the number of people depending on the shadow economy will definitely grow.

The so-called “Social NGOs” which work in this field have recently formed a “Platform of Social NGOs” which seeks acceptance by the European Commission as a Third Social Partner (besides the employers’ and trade union associations). However, political lobbying to defend social rights and influence future European social and employment regulations — although important — might be insufficient to secure the future of the sector. More and more organisations are adopting an increasingly direct interventionist approach, establishing a “self-help economy”, “économie solidaire”, or “community economy”. Some of them go back to or are inspired by the traditional co-operative movement, others start from scratch, often developed informally as neighbourhood and self-help initiatives which are then formalised into new social and/or community enterprises. These are some of the most interesting and innovative developments within the response of civil society to globalisation and social exclusion.

In 1997 the European Network for Economic Self Help and Local Development analysed the variety of social enterprises in six European countries. Despite the historical, political and regional differences, we identified some common principles which led to a working definition of social enterprises as follows:

1. They seek to tackle specific social aims by engaging in economic and trading activities.
2. They are not-for-profit organisations, in the sense that all surplus profits generated are either re-invested in the economic activities of the enterprise or are used in other ways to tackle the stated social aims of the enterprise.
3. Their legal structures are such that all assets and accumulated wealth of the enterprise do not belong to any individuals but are held in trust to be used for the benefit of these persons or areas that are the intended beneficiaries of the enterprise's social aims.

4. Their organisational structures are such that the full participation of members is encouraged on a co-operative basis with rights accorded to all members.

5. It is a further characteristic of the social enterprise that it encourages mutual co-operation between social enterprises and with other organisations in the wider social and local economy. (Technologie-Netzwerk Berlin, 1997)

Sam Aaronovitch participated in the Local Economy Symposium in Berlin in 1992 and was a critical partner for the European Network in the following years. The ongoing scandal of mass unemployment became his major concern in recent years. He organised, interrupted already by periods of illness, two major conferences, bringing together representatives from London and Berlin in 1995 (Aaronovitch et al, 1996) and furthermore from Paris and New York in 1997. The motto of the last conference was “Setting the agenda...”. Sam could not finish the agenda, somewhat like Moses who was leading his people to a promised land he could not reach. We will continue the journey.

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**Local Economic Development**


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