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Planning for Local Economic Development

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The role of small business

During the past decade, planning for economic development has increased in importance for local communities in both the USA and in the UK. However, there is as yet no profession of local economic development planner, nor are the strategies that communities employ fully articulated and well-grounded in theory. Debates over appropriate policies and programmes abound. Among those debates, the issues of the role of small business enterprises has become important. Substantial evidence suggests that small firms contribute to employment creation and to economic dynamism. Yet, it is not fully understood how that contribution occurs or where it is most likely to be effective. Integrating small enterprise into local economic development strategies requires both a reconsideration of the field of local economic development planning and the nature of small business itself.

As a field of public action, planning reflects the problems of its time and place. At this time and in many parts of the world, urban areas are faced with profound changes in their own economic structure and in their trading relations with other places. Cities, regions, and smaller areas within them have experienced losses of employment and enterprises over the past decade on a scale that is virtually unprecedented. The impacts have been especially harsh in that these losses are no longer temporary effects of swings in the business cycle, but often permanent. They reflect basic shifts in the competitive positions of producers in world markets under the pressure of new technologies and products. Their consequences for workers in well-established, high-paying industries have been little short of disastrous.[1]

My main concern in this paper will be the ways in which communities faced with economic adversity might respond, and especially, their efforts to draw upon the energy and ingenuity of small businesses. Toward this end, I will first discuss the problem of local economic development and the ways in which we understand how local economies work. Next, I will review the question of intervention on behalf of economic development, and the strategies that have been suggested and attempted for this purpose. Finally, I will look at the role of small business in such strategies, and ask how best this role can be enhanced. But first, I would like to consider the implications of this development for planning and planners by referring back to the work of Sir Patrick Abercrombie.

Abercrombie's great plans, for example the *Greater London Plan*, are remarkable for their power and prescience in many respects.[2] His vision of planning at a grand scale to reshape the metropolis into a form that would provide a healthy and efficient environment is reflected in the development of London since his time. Yet, if one reads the plan, the sections devoted to the economic base of the city seem perhaps more distant than almost any other. There is some irony in the fact that in the year when the M25 motorway has finally been completed, largely conforming to Abercrombie's route, the economy of London has been transformed out of recognition. The industrial base upon which planning of that time rested is substantially gone. More to the point, the key assumptions of the plan, namely that the economy would be managed at the national level to provide full employment, and that the task of planning at the local level would primarily be to balance jobs and housing by preventing further job growth in London, seem to be part of a different world, as indeed they are.

It is surely no discredit to Abercrombie to point out the difference between planning for the physical development of London that he envisioned and the concern for the economic future of cities themselves that bemuses us so much at present. His conception of the problem was not inappropriate during the two decades after 1945 when industrial production and employment in Britain continued to rise.[3] No plan can fully predict the future; at best, we can make provision on the basis of what we know now. And today, we must deal with the consequences of international changes that have decimated industries that only forty years ago seemed to be secure for the indefinite future. The capacity of cities to function as economic entities capable of providing employment and income for their inhabitants, has been called into question in a way that has not been seen since the Great Depression. The tasks of planning cannot exclude the maintenance of economic viability when that is the central issue.

The problem of local economic development

What is the nature of the problem that faces so many cities and communities? At the core, it is the prospect that the basis on which a city has made its way—the sources of employment and income for people, businesses, and institutions — may be lost without any evident means of replacement. This has happened historically to innumerable places, but they have been mostly small or isolated, for example, mining communities whose resources have run out. Recently, we have seen it happen to large cities, with tragic consequences for the older and less mobile people in their populations. There is increasing evidence that unemployment may lead to mental and physical health problems far beyond the loss of income as such.[4] In the face of such problems, both scholars and policy makers have asked: 'why is it happening now and what can be done about it?'

No-one has undisputed answers to either of these questions. Indeed, whether it makes sense even to attempt to influence the local economy at the local level has been a subject of dispute. Conventional economic analysis stresses the importance of national and international policies and trends in shaping the economic environment in which localities function. The point of view, as it were, is one from far out in space, seeing the globe swept by great currents of change that carry whole countries along with them. In the face of such forces, what can a local area do? The answer is likely to be very little.

In contrast, the perspective of local economic development is closer to that of a person at the bottom of a well who is trying to grow a flower. There is no place else to go and one must make the best of the situation that exists. Understanding the larger environment is very important for success in this enterprise; but knowing what is possible in the specific place is equally important. And, in practice, just as two gardeners in adjacent plots of land may produce vastly different results, depending upon their talent and skill, so localities faced with economic problems seem to cope in very different ways and with differing degrees of success. I take the view that it is worth trying to do something, not least because self-respect demands it, but also because help from the outside is an unlikely prospect for most places. But this leaves the questions of how we understand the problem, what means and strategies for intervention are possible, and who will carry out the work.

Let me turn first to the conceptual basis for local economic development.

Understanding local economies

How we see the economy of an area will condition our likely response to its problems. This perspective is rooted in our value system and political outlook. It is also shaped by the conceptual framework that we use to structure our thinking about how things work and what we see as the important factors in a particular situation. People have been trying to understand urban economies for a long time now, so there is no shortage of models. However, differences among models may give rise to quite varied policy prescriptions. Furthermore, people putting forward policy proposals often have no clear conception of the underlying model upon which a particular prescription is based. Thus, it may be useful to sketch out some of the principal ways in which people have thought about the nature of local economies. I will discuss three approaches that, for convenience, I will call traditional, structural, and developmental. These are, of course, only cartoons of rich and varied literatures. Nonetheless, they may help frame the policy issues more precisely.

Traditionally, economists, geographers, and planners, the three groups who have been most interested in these matters, have asked about cities the questions 'Why here?' and 'Where is the best location?' In seeking to explain patterns of location and the emergence of particular places, they have emphasised resources, access to markets, and the agglomerative effects of urban scale. Thus, a steel industry and associated urban development could emerge on the coal deposits at Pittsburgh, Pennsylvania, or far from any resources but close to markets and on good transportation routes, as at Chicago, where assembly of raw materials was cheap and a huge market was emerging in the late nineteenth century.[5] Not only physical resources, but also human, in the form of skilled labour, entrepreneurship, and organisational capacity were early identified as important, for example in the growth of Lancashire's cotton-based urbanisation. In particular, exports from an area were seen as critical to economic and urban growth, providing the basis for both trade with other areas and the development of local serving sectors within the city.[6]

Although less successful in explaining the rise and continuing dominance of major metropolitan centres, this general approach has proved useful and durable. As Singapore, among other places, has shown spectacularly in the past twenty years, exports may be the means to extraordinary economic growth. Nonetheless, there is a static character to much of the analysis based upon these ideas, which is not remarkable in view of their origins in the comparative statics of neoclassical economics. Change is predominantly seen as due to external factors, with the exception of the exhaustion of resources. Despite the interesting and subtle variations that have been elaborated over the years, a certain mechanistic quality remains.

It is therefore not surprising that in the past decade geographers and economists, especially in the UK, have looked for alternative ways to interpret what has been happening to the economic bases of cities and regions. Responding, I suspect, in good part to the decline in major industrial sectors, they have adopted models that are more structural in character. Although often associated with Marxist analysis, these models tend to be eclectic rather than formal. They focus on large structural changes in the relative competitive positions of industrial sectors within the world market, and the consequences of those changes for specific places. Shifts in the international division of labour have led to the restructuring of industries such as steel, shipbuilding, textiles, and automobiles, the key bases of industrial development over the past two centuries. The consequences of these transformations are evident worldwide, from idle steelmills in Australia, to closing automobile assembly plants in California, to empty factories in Liverpool and the old Lancashire cotton towns.[7]

Powerful though structuralist analysis may be for focusing our attention upon change, in my opinion it does not provide a sufficient basis for building a policy response. The focus upon very broad sets of influences tends to minimise any action that is not equally sweeping in character. There is little room for local initiative. Furthermore, the emphasis on major existing sectors generates analysis and proposals designed to preserve their jobs rather than to a search for new alternatives.[8] Such measures may well be justified in social or political terms, given the social costs of industrial closure on a mass scale. Nevertheless, they may be unable to provide the economic dynamism necessary to carry communities successfully through profound transformations of their industrial bases.[9]

What is necessary is a developmental view of the urban economy, that is, one emphasising its evolution and transformation over time—the process of emergence of new sectors as well as decline of the old. No single model can encompass development, which is shaped by variables as diverse as scientific and technological discovery, shifting social mores, and demographic transitions. Yet, there is such a tradition in economics, associated with the work of Schumpeter and more recently the study of economic development. In the urban field, also, we can draw on theoretical insights and empirical work that support this view.

From this perspective, a city should be seen both as an economic system in itself and as an economy interacting with the outside world. A major city comprises an enormous stock of physical, social, and human capital that is capable of being directed into new activities, depending upon the social and political imperatives and constraints of its environment. It is also a complex system of interacting economic actors and groups that may form new combinations and provide opportunities for new types of production and consumption in a cumulative and self-reinforcing process. Whether this will occur is not subject to a determinate analysis. But we know that it can and does happen. At the same time, a city's economy exists in a symbiotic relation to markets outside itself. As these markets shift, both problems and opportunities are created. Thus, a central task of economic development policy becomes the searching out of possibilities for new lines of development as well as dealing with the fortunes of the old.

Such a view of the city corresponds quite closely to that put forward by Jane Jacobs in her provocative analysis of city economies.[10] However, I would not emphasise so strongly the role of the import replacing sectors in the generation of growth. Rather, it seems to me that development requires creation of new firms and sectors, both for exports and for import replacement, and for serving entirely new local needs. The process of urban growth and development implies an increase in absolute scale of population and firms, together with expansion in the number of sectors and in the complexity of economic relations among them. It is this enrichment of the structure and complexity of the economy that I would identify as the key characteristic of development.

No simple formula can be applied in every circumstance to generate development. Rather, we must examine each specific local economy with great care and try to elucidate the conditions that will promote new forms of development. In part, this implies attempting to identify sectors in which opportunity might exist, but that is difficult. I believe that it is equally important to look for more general constraints at the local level that might be removed and for resources and market opportunities that might be tapped.

It might be argued that this view tends to be optimistic and favours new firms and sectors at the cost of established ones that have historically provided secure and high income employment. Indeed, newer sectors often pay lower wages, especially where they are non-unionised, as is very evident in the service sectors that have dominated new employment creation in recent years.[11] However, the older sectors are simply no longer economically viable at current employment levels without subsidies that cannot be maintained over the long-term. In any event, a focus on development should not exclude efforts to preserve existing jobs. Indeed, this should be an important component of economic development strategy in any locality facing difficulty, but it cannot be the whole of such a strategy. Nor should the character of existing employment constrain policy for future development, though it might be an important consideration in selecting among alternative development possibilities.

Each of the broad conceptual approaches discussed so far is reflected in corresponding economic development strategies, albeit imperfectly. As a prelude to discussion of small business support as a particular instance, I now turn to look at a few of those strategies themselves, both in terms of their ideas and their organisational manifestations.

Intervention and planning in the local economy

In the United States, planning for local economic development has become the fastest growing area of the field. In the past ten years, we have seen the planning function in local governments expanded to include explicit attention to enhancing the employment and tax base of communities. To my knowledge, there has been no comprehensive attempt to document the scale of this phenomenon. Nonetheless, it was clearly in evidence by the late 1970s, and became the first order of business with the severe recessions of the early 1980s. Since then, there have been no signs of its diminution. A similar, though certainly not identical phenomenon, has occurred in Britain.[12]

Attempts to shape the evolution of local economies are not new. As early as the eighteenth century, American cities exhibited a lively tradition of local boosterism. This included subsidies to manufacturers who would locate new facilities, exhortations and advertisements directed toward potential migrants, and lobbying to the point of bribery of state legislators who could affect such infrastructure decisions as the location of canals and railroads.[13] By the post-World War II period, however, such activities had fallen largely into the purview of Chambers of Commerce and similar organisations directly controlled by business, though often subsidised by local taxes in one form or another. The essential elements of these efforts were, first, direct inducements to companies to locate plants and facilities, and, second, generalised promotion of the locality through advertising or other means. In terms of the traditional economic models discussed earlier, these may be seen as efforts to improve a locality's competitive situation, either directly or through provision of improved information. While the efficacy of these actions was widely questioned by economists and others, they continued to be supported by business, partly, one suspects, because they represented a symbolically important declaration about commitment to a 'good business climate'.

The change in recent years has been quite striking. The erosion of traditional sectoral bases of employment and the resulting pressure on fiscal resources and on services, was accelerated by the oil price shocks of the 1970s and the dual recessions of 1979 to 1982, the worst since the 1930s. In response, cities and states have searched for alternatives, and in the process have established new structures for the support of economic development, bringing together formerly separate activities, such as business attraction and labour force training.

In the USA, the process has occurred piecemeal at the local and state levels, due not least to the withdrawal of the Federal government since 1980 from as much local responsibility as it could convince Congress to go along with. Thus, there is no 'typical' or approved way in which local economic development planning and implementation occurs. In many instances, the placement and form of economic development activity reflects historical accident, for example, in the evolution of an urban redevelopment agency into an economic development office. In other cases, economic development has become the responsibility of the local planning agency, reflecting its regulation of land use decisions. In still others, the activity is carried on in a special office, often attached to chief executive, in the belief that quick and decisive action is necessary when business investment decisions are at stake. At the state level, there is similar diversity, and the overall picture is made more complicated by the continuing existence of some Federal activity, notably in the areas of employment training and small business support. Only rarely is economic development a fully coordinated activity that brings together planning, implementation of development, labour force training, and other components of what has come to be seen as the field.

Similarly, there is no clearly-defined group of professionals who can be said to constitute an economic development planning profession. Among those who practise in the field are city planners, economists, real estate specialists, lawyers, community activists, and many other transmuted professionals. For some, it has been the natural evolution of their careers; for others, economic development has been a tactic of their organisations attempting to survive in a world of sharp Federal government reductions in funding for social services. Many non-profit and quasi-public community organisations have sought to offset these cuts by moving into activities that can generate resources. Their training and capabilities vary widely, as does the effectiveness of their efforts. While some community organisations have made the transition quite well, others have collapsed in financial chaos and illegality.

Thus, local economic development is at this time a protofield in the USA, and, I suspect, in good part in Britain too.[14] We are beginning to learn how to make effective organisations, and in the universities we are working quite hard to develop a research base and professional training that will allow people to work in the area with some degree of competence. But for this institution building to make sense, we need a coherent notion of what can and should be attempted under different circumstances. In short, we must ask what strategies can be utilised in search of economic growth and change.

Strategies for local economic development

Perhaps strategy is too grand a term to describe most of what is attempted under the heading of local economic development. Some forms of action have been used widely and constitute a conventional toolbox for development policy. In many cases, they have become accepted without much reflection and without serious consideration of their conceptual origins or relevance to the situation at hand. Political imperatives tend to lead to the search for a 'magic bullet', an infallible way of realising high-paying jobs for low-skilled people, delivered in a form that rocks no environmental boats and antagonises no powerful constituencies. Of course, this is a fantasy, but its attraction, especially in high tech garb, is undeniable.

Surely the oldest development strategy is business attraction, the attempt to lure capital to a community in the form of a plant or facility. Although widely deprecated by economists and others as simply moving investment around rather than creating any net gain, it is alive and well in the USA and elsewhere in the world. Combined with strong supporting conditions, as in the case of Singapore, it can be notably successful. However, unless it leads to change in the developmental sense described earlier, the results can be mediocre. Puerto Rico, for example, may be better off than it would have been with no investment, but forty years of branch plant development has built an economy that is not only fragile but incapable of supporting the population even with large subsidies from the mainland.

A recent variant on business attraction is the attempt to retain businesses already in the community by a combination of incentives similar to those used for attraction of new firms. The principal advantage of this approach is the fact that the firms are known quantities and their value to the local economy has been demonstrated. Much of the effort in this instance is directed toward identifying firms that are likely to disinvest in the area and working out packages of measures that would change their decisions. Such measures might include assistance in finding and securing expanded premises, tax relief, worker training, or even direct financing.

A different form of strategy, but no less common, is the attempt by a community to shape development directly, through the provision of major infrastructure and even equity participation in development. In the form of downtown commercial and office-based redevelopment, this kind of activity is found in every large city in the USA and has had some notable successes, for example Quincy Market in Boston and the Inner Harbor development in Baltimore. In Britain the urban development corporations, such as the London Docklands Development Corporation, appear to be using a similar strategy. Generation of attractive conditions for large-scale real estate investment by private developers is neither easy nor cheap, but when it has worked the results have certainly changed the appearance of central cities. Whether the outcomes in terms of employment and income for residents are equally favourable has been hotly debated, with some critics claiming that city governments tend to give away too much in return for jobs largely taken by commuters or new residents who simply gentrify the area. Nonetheless, such development does generate tax revenues and gives a boost to the image of a city that may have effects far beyond those immediately visible. Yet, it is only in quite limited circumstances that central business district redevelopment can carry the burden for economic development of the city as a whole. Other means are also necessary.

One approach that has been strongly advocated by neighbourhood organisations has been support of economic development at the community level, especially through non-profit or employee-owned organisations. In Britain, many enterprise boards began with a similar strategy. Generally speaking, in the USA such activity has received more lip service than resources, and where it has been tried the outcomes have been mixed. The idea of cooperatives is in many ways appealing, but other than Mondragon in Spain, which is always cited, the number of clearly successful efforts is quite limited. Creating and maintaining a viable non-profit enterprise in the USA is no mean task. Neither the legal nor the financial systems are well suited to this kind of organisation. Finding capital is never easy, and for organisations that look unorthodox it is even harder. Developing a structure of management that can deal with a fiercely competitive market has proved difficult in many instances. In consequence, the use of non-profit entities in economic development has grown slowly, although a small but significant number of employee-owned enterprises have come into existence in recent years.

I would like to mention briefly two other strategy elements, namely labour training and improvement of environmental quality. Each of these is essentially a supply-side measure. That is, they principally affect the environment in which a potential business operates. We know from many studies that both the quality of the labour force and the larger environmental quality of the place are important factors in businesses' decisions to invest. For some sectors, notably in high technology, the two interact, since the ability to attract the types of highly-skilled engineers and technologists required depends in good part on a locality's housing, schools, and level of amenity. For cities with large numbers of immobile and low skilled workers, or with workers with specialised experience who have been made redundant by plant closures, the problem is different. Programmes for skill training and work preparation have been in existence in the USA at least since the 1960s with mixed success. They have shifted in funding from state to federal to local levels, depending on the changing political climate, and have often been criticised by the right as no more than disguised welfare.[15] Even so, they remain an important part of any serious economic development programme, notwithstanding the perennial problems of funding.

All of these approaches, and more that I have not mentioned, have been tried in various ways. In recent years, however, attention has been turned to the prospect of enhancing the autonomous development of new and small firms within cities as an additional element of public policy. I now turn to this idea.

The role of small business in local economic development

Recognition of the importance of small firms in the generation of employment emerged from the work of David Birch in the late 1970s.[16] Birch found that some two-thirds of net new jobs in the USA in the decade had been generated in small firms, defined as enterprises with 100 or fewer employees. This was a far higher proportion than their share of total employment. Despite the considerable debate over the validity of his results, subsequent research indicates that small firms are indeed important for employment generation, although not at all times and places.[17] But this does not mean that they constitute an answer to the economic problems of cities. Transforming a research finding into an effective policy is neither simple nor easy.

What can or should be the role of small businesses in urban economic growth and development? Although each specific situation differs, we can point to at least three distinct roles.

First, small firms play a critical function in amplifying the economic impact of large-scale industrial investment. As suppliers of parts and services, they enrich the complexity of the local economy and play a key part in the creation of new sectors. Without this type of supplementary growth, securing new plants is likely to be ineffectual or at best only partially successful, as in the cases of Puerto Rico or the Mezzogiorno in Italy.[18]

Second, for central city revitalisation and large-scale redevelopment of the urban core, small firms have a similar function, especially as suppliers of business services that appear to be increasingly critical to successful development. It is noticeable in the USA, and I think in Britain, that regional centres have experienced substantial investments in office and related shopping functions, producing a new kind of central city.[19] While the core cannot provide employment for all, its contribution is substantial. Just as important is the effect on the city's image and the perception of investors about its investment potential. In this process, small firms are a critical element, creating the kind of diversity and interest necessary for a successful urban environment.

Thirdly, small firms may form the heart of entirely new industrial growth centres, such as Silicon Valley or the Emilia-Romagna. However, we must realise that the growth of *employment* in these areas is likely to depend primarily on small firms growing large. In high technology areas, especially, employment is dominated by relatively few large firms—the Hewlett-Packards or Wangs. However, the successful areas again are those that include a full range of firm sizes and achieve dynamic, interactive growth, based both on sales between firms and on cross-fertilisation of technological research and development.

Thus, small businesses may play either a leading or subordinate role in development, which has been the focus of some contention about them. It is hard to think of successful growth in recent years in which they have not been important. Nonetheless, the question of how to encourage them and integrate them into an economic development strategy remains unclear.

Small business and local economic development strategy

Any attempt to construct a local economic development strategy around small business must deal with a number of issues. I will discuss some of them briefly, then turn to the problems of shaping a strategy. The first issue is definition of what we are talking about. The question of how to define small is always raised in discussions of small business. In a formal sense, there can be no answer. Small is always relative: in the automobile industry, Jaguar Motors is small; in the planning consulting sector, a fifty person firm is large. Should we measure by employment, value added, turnover, profits or something else? In practice, we probably cannot make fine distinctions, nor can we find the information to justify sophisticated definitions. So, most people in the field use employment as a measure, and establish scale criteria to fit their particular purposes. Except for the necessity to be consistent, I consider this to be less a theoretical or technical than a political issue, since the most important effect of definition is usually to determine eligibility for some benefit.

A much more difficult issue is the question of what a small business strategy is intended to do. There is a long history of efforts to assist small business in the USA, motivated by many different objectives, both ideological and material. However, any policy attempting to support all small firms individually is likely to be ineffective in economic development terms for the simple reason that by most criteria, for example 100 or fewer employees, virtually all firms would be classified as small. In California, about 95 per cent of firms fall in this size category. At best, broad policy may be directed toward improving the general business climate for these firms, but for more precise purposes it is necessary to specify the category of businesses to be targetted.

This, then, raises the issue of focus of a strategy. Should it attempt to encourage firms in some specific sectors that are deemed to offer good possibilities for growth, or should it concentrate on firms in particular stages of development, for example, start-ups or recent but established businesses of all types? How far should a strategy be directed toward specific groups of entrepreneurs, such as minorities or women? In different places, each of these questions might be answered differently, but they need to be addressed.

One particularly critical question needs to be clearly understood: that is the balance within a small business strategy between policies designed to improve the general situation of small businesses, and programmes whose goal is to assist individual firms directly. A good example of the former might be a change in the taxation of undistributed profits. Others might be deregulation or relaxation of controls. The latter may include a very broad range of possibilities, but all involve a direct relationship between a helping organisation and a firm and its employees.

Recently, my colleagues and I took a careful look at what is being done to help small firms through direct assistance programmes in California. Although we could not document the ultimate effects of assistance, we were able for the first time to see what was being provided and for whom. The results have some general interest and suggest ideas for small business assistance in the context of local economic development policy. I will therefore comment on them, bearing in mind that I do so as an illustration, not as an exemplary case.

We identified over 400 public or quasi-public organisations in the State that claimed to be delivering services to small firms. We did not attempt to survey the thousands of private sector actors, such as accountants and lawyers. The surveyed organisations ranged from US government departments down to local community groups and colleges, and they operated over diverse realms, from local to statewide, and from specific target groups to anyone who walked in the door.

Their services were somewhat less diverse, falling into four broad groups:

1. *Finance*: Principally through assistance in packaging of applications for loans, though in a few cases agencies have direct loan funds.
2. *Management Assistance*: Taking the form of direct aid in bookkeeping and organisation, or as assistance in the preparation of business plans.
3. *Marketing Assistance*: Especially helping small minority firms to secure government procurement contracts.
4. *Training*: For workers in the classroom and on-the-job, and for potential entrepreneurs.

These are all useful types of services for small enterprises. Organisations generally seemed to have the right ideas, but service delivery was often inadequate. Many of the organisations we saw were too small to do an adequate job of providing a broad range of help by competent people. In general, they did little to help firms in the critical start-up phase, with the exception of educational institutions that provided short courses on business opportunities and skills.[20] Too many organisations were acting simply as conduits for federal or state funds, thereby ensuring that they themselves would continue to exist. Very few could provide technical assistance in the context of a physical space (an incubator) in which firms could share service, enjoy low cost space during their early years, and in some sense be watched over. And very few of these agencies had any real relationship to local planners who were working on economic development policy and plans. They did little to shape or contribute to development policies that might affect their clients.

Our conclusions, then, were that Californian cities generally did not have anything approaching an ideal form of organisation for assisting small firms, and that the help provided did not constitute a coherent strategy. Of course, there were exceptional organisations of high quality and effectiveness, but they were not integrated into an economic development strategy at a local level. The result was much waste and loss of potential impact.

Is it possible to do better? Perhaps not in the fragmented political environment of California, but at least we should be able to design a structure that would make more sense. What might it look like? I would offer three guidelines.

First, a small business component of an economic development strategy should be just that. It is not an entire strategy and cannot replace concern for larger-scale development, whether in the form of service sector growth or manufacturing. There needs to be a well-grounded sense of the basis for future economic growth in a city or region, and the role of small business should be clarified within that conception. This is not to say that small business should be tightly circumscribed. Rather, the intent is to have some bench mark against which progress in small business development can be assessed, providing a basis for reshaping its role as seems appropriate.

Second, a small business strategy should encompass both a concern for policies affecting the business environment and a concern for direct service provision to enhance the prospects for individual firms. The form of direct assistance organisations should be such that competent staff are attracted to work in them. They should be large enough to allow a broad range of services to be delivered. We think that this means a few sizeable organisations staffed by diverse professionals and able to provide assistance for many different types of problem. A satellite system might exist for simpler assistance and reference purposes, but it should be integrated to a substantial provider in order to secure high standards of performance. An alternative structure might have a number of organisations, each specialising in some aspect of assistance, for example, securing finance. Although this seems to work for some specialities, in California, it has left many other small general purpose providers inadequately staffed and funded. The result is that many places are poorly served.

Third, if employment growth is the primary objective, policies directed toward the general business environment should give priority to the interests of growing firms, those that will provide the bulk of future employment. This is a serious problem, since the great majority of firms are not and never will be growers. Thus, they will be excluded from benefits and may be expected to oppose measures that would give an advantage to only a minority of firms.

No guidelines can ensure that a strategy will be effective in a particular situation. What is important is that the objectives and means employed are thoughtfully considered in the light of the best available information. In California small business development strategies have emerged in a piecemeal way, out of differing public initiatives. The results have not been all that might have been hoped, in good part due to the absence of an appropriate organisational structure. Small business development is a new direction for local economic development, with a much shorter history than standard approaches such as industrial attraction. At this time, it is important that whatever lessons we can learn about its implementation be brought to bear so that inevitable disappointments do not lead to rejection of the entire idea.

Conclusion

In conclusion, I think that it is important that small business be recognised for what it is, warts and all, as an often remarkable, but not infallible or costless source of economic growth. That small firms are important for a smoothly-running and efficient economy has become evident in the reforms of centrally planned economies, as recent experience in China makes clear. Yet, small businesses also function in their own self-interest, not for some social good, and their behaviour can create social costs.

In the face of economic problems, small business has been adopted as a panacea by both the right and the left, although with very different conceptions of its nature and value. It is not a panacea, nor is it the threat to social welfare often seen by the left. Without public sector support, small business is not likely to generate major growth, no matter what the ideological claims of its supporters. On the other hand, without the energy and force of business development, our economies will stagnate in relative poverty.

Small firms are essential to dynamic and economically healthy cities. As planners, we should recognise their importance and work to foster them in socially positive ways. This is not easy. Innovative small firms must make their way in an economic world dominated by multinational corporations and entrenched interest groups of all kinds. That they survive at all, let alone grow, is a tribute to the power of individual initiative in an open economy, but success is not automatic. Enhancing the capabilities of small firms to generate future employment opportunities may be one of the most important tasks that planners can undertake.

NOTES AND REFERENCES

1 Although there are many debates about the scale, causes, and significance of these changes, few would now dispute that they are profoundly important to the shaping of urban development. For a good discussion of the changes in the context of the United States, see Bluestone, Barry and Harrison, Bennett, *The Deindustrialization of America*, New York, Basic Books, 1982. The British experience has been well documented in Massey, Doreen, *Spatial Divisions of Labour: Social Structures and the Geography of Production*, London, Macmillan, 1984.

2 See Abercrombie, Patrick, *Greater London Plan* 1944, London, HMSO, 1945.

3 I am indebted to David Keeble for pointing this out.

4 See Bluestone and Harrison, op. cit.

5 The literature in locational and regional economics is now huge. For a recent reconsideration of this example, see Markusen, Ann, 'Neither Ore, nor Coal, nor Markets: A Policy Oriented View of Steel Sites in the U.S.A.', *Regional Studies*, 20 (5) 1986, pp. 449–461.

6 Despite criticism from all sides, the export base probably remains the most common conceptual foundation for local economic strategies.

7 For an excellent example of this style of analysis see Massey, op. cit.

8 A powerful recent example is Markusen, Ann, *Steel and Southeast Chicago*, A Research Report for the Mayor's Task Force on Steel and the Southeast Chicago Economy, Evanston, Illinois, Center for Urban Affairs and Policy Research, 1985.

9 I will not argue here the question of whether the restructuring is inevitable. For the case that it is not and should be reversed, see Zeisman, John and Cohen, Stephen, *Manufacturing Matters*, New York, Basic Books, forthcoming. It does seem clear that local efforts can do relatively little to change these trends.

10 See Jacobs, Jane, *Cities and the Wealth of Nations: Principles of Economic Life*, Harmondsworth, Middlesex, Viking, 1984. While I do not accept much of her analysis, the overall perspective is important for thinking about local economic development.

11 The debate continues about the consequences of economic transformation for the distribution of income as high-wage industrialised sectors continue to decline. See Bluestone, Barry and Harrison, Bennett, *The Great American Jobs Machine: The Proliferation of Low-wage Employment in the U.S. Economy*, US Congressional Joint Economic Committee, forthcoming.

12 Evidence of this growth is visible in the number and variety of new organisations and new positions for professionals to carry out economic development activities.

13 For examples see Wade, Richard C., *The Urban Frontier*, Chicago, University of Chicago Press, 1964.

14 The UK may have developed a greater degree of uniformity. The role of Economic Development Officer appears to have been adopted by many local governments.

15 In contrast, in Britain they seem to be criticised from the left as disguised means of reducing the official unemployment rate.

16 See Birch, David L., 'The Job Generation Process', Cambridge, Massachusetts, The MIT Program on Urban and Regional Change, 1979.

17 See Storey, D. J. (ed.), *Small Firms in Regional Economic Development*, Cambridge, Cambridge University Press, 1985.

18 A nice analysis of this phenomenon is given in Martinelli, Flavia, 'Public Policy and Industrial Development in Southern Italy: Anatomy of a Dependent Industry', *International Journal of Urban and Regional Research*, 9 (1) 1985, pp. 47–81.

19 Charles Leven has pointed out the significance of this shift for the character of urban development.

20 The Service Corps of Retired Executives, sponsored by the Federal government's Small Business Administration was also active in this area.