

New Strategies for Local Economic Development

In the preceding article, Michael Redmond notes several objections to the industrial recruitment process as currently practiced. Briefly summarized, these objections are:

- (1) industrial recruitment is essentially a passive strategy, dependent upon public inducements to private decision makers;
- (2) lacking the qualities desired by managers making locational decisions, some communities fail to attract new industry;
- (3) the recruitment process is often dominated by a few groups within the community that may not reflect wider community interests.

Some methods are then suggested for improving industrial recruitment as an economic development strategy.

While job creation through attraction of outside capital can be an effective development tool, even an optimally designed industrial recruitment strategy is not appropriate for all areas, all situations, and all times. Job creation efforts can be expanded to include internal development — encouragement of local potential for job creation. Furthermore, the local planner must be prepared to provide support to job retention efforts as well.

The economic vitality of a community is dependent upon a complex set of inter-relationships, and no single tool in the planner's kit is suitable for all problems. Unless the economic development planner is able to design new tools, or adapt existing ones, the planner may be forced to stand by helplessly as the community suffers from economic dislocations.

Using Available Resources

Currently, the tools available to implement new approaches to economic development are rather limited. Federal and state programs to assist local

economic development are still primarily oriented toward creation of infrastructure to improve the environment for industrial recruitment. Financial and technical assistance to communities that demand a different solution remains small in comparison. Creative approaches have been developed, however, through adaptation of existing programs to new uses.

Existing business in a community often feels, with some justification, that its contributions and needs are overlooked in the scramble to attract new business. These needs may be inimical to economic development, as when local business opposes recruitment of higher paying industry to avoid wage competition or the threat of unionization. Still, locally-owned businesses, whether privately or community owned, can provide resources upon which to build. Timely assistance to locally based business can prevent costly loss of employment. This may mean nothing more than providing the same type of assistance to existing business that new industry receives. Bringing the local businessman who needs capital for expansion together with private or public lenders can result in small but important job expansion.

The Small Business Administration, Farmer's Home Administration, and the Economic Development Administration all provide several types of short and long term financing to assist community economic development. The local planner can play a crucial role by educating local businesses about these programs and easing the application process. In some programs (such as EDA Title IX), the local

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public sector must act as a conduit for federal funds to reach worthwhile private projects.

Innovative Approaches to Economic Development

Some communities have attempted more innovative approaches to job creation and expansion. The Comprehensive Employment and Training Act (CETA), which combined several manpower and training programs, is primarily designed to provide individuals with skills and education to take advantage of existing employment opportunities. Training costs are subsidized by the federal government, and a public service jobs component is included to directly combat high levels of unemployment. Where local demand for labor is low, or employers are reluctant to hire CETA trainees, CETA training and placement programs will be ineffective. The public service jobs component often faces local opposition as unproductive "makework." In these situations, a few communities have realized the potential for combining job creation and job training programs, ignoring the artificial barrier that tends to separate manpower planning and economic development planning.

The Massachusetts State Manpower Services Council has proposed the use of CETA funds to generate local enterprises, thus creating both employment and training opportunities while establishing new businesses. Within North Carolina, the

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Triangle Housing Development Corporation uses CETA funds to help operate a non-profit housing rehabilitation enterprise which provides needed housing services in rural areas while training carpenters. The Division of Community Employment of the North Carolina Department of Natural Resources and Community Development is now developing a similar program. While such programs are not widespread, the existing models demonstrate that available funding can be adapted to better serve community economic development needs.

Another exciting challenge to economic development planners is the potential for assisting in the development of community-based enterprises. Community-based enterprise (CBE) is a loose, somewhat ill-defined term used to refer to a variety of enterprise forms, including cooperatives, worker-owned firms, community development corporations, or stock corporations with broad based community ownership. Basically, CBEs are enterprises whose capital is owned by community residents and with some provision for worker (or wider com-

munity) participation in the decision making process within the firm. Although there is much latitude concerning what constitutes a community-based enterprise, examples range from the worker owned firms in New Jersey and Indiana (Okonite Company with 1500 employees and South Bend Lathe with 500 employees) to Allied Plywood in Virginia (19 employees) and family owned farms throughout North Carolina (New Jersey IDA 1976; Ryan 1976; Knight 1977).

CBEs

Community-based enterprises can stimulate economic activity in communities where industrial recruitment offers little chance of success. Although plant closings are widely known to be a problem in northern states, net growth in aggregate employment within North Carolina obscures the effects of plant closings. A sizable body of literature, including several studies carried out in the South, documents the severe impact of a plant closing on workers and the wider community. Prolonged unemployment, decreased worker and community income, declining local retail sales, and loss of local and state tax payments typically follow (Haber, Ferman, and Hudson 1969; Lumpkin 1934; Dorsey 1967). Additional evidence reveals psychological and health costs as well. Increases in hospital admissions, alcoholism, depression, and assorted medical problems have been reported (Slote 1969; Kasl and Cobb 1968; 1970; Strange 1977). Perhaps most debilitating are the feelings of depression, loss of self-esteem, and anomie that follow the sudden transition from a valued employee to "unwanted worker," in Foltman's phrase (Foltman 1968). Political alienation and disruption of community social networks can follow (Aiken, Ferman, and Sheppard 1968).

Manpower planners have found that traditional training programs and employment services do little to avert long term unemployment or the lower quality of reemployment that often follows a plant shutdown (Stern 1972; Young 1963). Employee relocation programs have not fared any better. Workers are strongly attached to their communities and view relocation as an undesirable alternative (Whitman and Schmidt 1966; Wilcock 1960).

Worker or community buy out of a closing firm not only saves jobs, but creates a community-based enterprise with its additional benefits. CBEs present the opportunity to achieve development objectives beyond increased employment, such as equitable distribution of benefits, utilization of local resources and talents, employment stability, and generation of increased citizen involvement in the economic life of the community. When all the stockholders in a firm live in the community and the ownership of stock is broad based, the firm is more likely to take community needs into account in the internal decision making process.

Worker-owned firms in particular are gaining in-

creased recognition as an important element in an overall economic development strategy. While conscious recognition by planners of the development potential of worker ownership is relatively new, the concept of worker ownership is well established in the U.S. economy. Spurred by mill closings in the 1920s, over twenty-five worker-owned plywood firms were established in the Pacific Northwest between 1920 and 1955. Sixteen of these remained in operation as worker-owned firms in 1977, and they generally reported higher productivity levels than conventionally owned firms (Bernstein 1977). The Employees Retirement Income Security Act grants special tax advantages to firms that establish Employee Stock Ownership Trusts to contribute corporate stock as part of an employee pension plan. The planner's interest, however, is in instances where the Employee Stock Ownership Trust mechanism has been used for 100 percent worker ownership of corporate stock. (For further discussion of this point, and citation of useful articles, see Carlisle et al. 1978.) A national survey conducted by Peter Hart Research Associates found that 66 percent of the American public would prefer to work in a company where the stock is owned by the employees (Rifkin 1977).

Worker or community ownership offers exciting potential as an economic development strategy; there are also great challenges. Experience demonstrates that worker buy-out is not a simple process. A successful worker purchase or community purchase demands the ardent efforts of many different institutions. First of all, financing must be arranged, which usually requires convincing commercial lenders that the perceived risk is worthwhile. State or federal government financial support may also be needed. The employees and community residents must be shown both the advantages and the risks of purchasing or initiating a particular business. If worker-owners are to enjoy the normal benefits of ownership, including decision making power in the firm, then training sessions may be needed to permit full and informed participation. Successful worker purchase attempts have required time periods ranging from six months to two years. Timely and informed intervention by economic development planners could shorten this period. Awareness of existing financial and technical support opportunities and quick action by the planner to secure this support can greatly improve the chances of successful worker or community ownership. Where such support has not existed purchase attempts have failed, or dissatisfaction has followed as the benefits of ownership and opportunities for participation fell short of expectations (Husock 1977; Tannenbaum 1977).

Expanding Technical and Financial Assistance

Where local economic development planners lack expertise in these areas they could draw upon



The Community Soap Factory is an example of a successful worker-owned firm.

Photo by Dan Levin

existing support institutions for guidance. Such technical support programs are not widespread but their prevalence has been increasing in recent years. Existing models for technical assistance programs include the Industrial Cooperative Association and the American Friends Service Committee in Cambridge, Massachusetts; the Exploratory Project for Economic Alternatives in Washington, D.C.; and the New School for Democratic Management and Economic Development Law Project in California. Both the Industrial Cooperative Association and the Exploratory Project are currently involved in assisting worker and community groups in purchase attempts. The New School offers classes in different parts of the country on management and operation of community-based enterprises. The Economic Development Law Project provides useful information on the legal aspects of community development. A group in the Department of City and Regional Planning of the University of North Carolina at Chapel Hill has recently begun developing a team to provide technical assistance to worker or community groups in North Carolina. Other possible sources of assistance include various university and state government programs for assisting small business, which can offer advice on aspects of operations common to all enterprises.

A second major role for government in supporting community-based enterprises is financing. Public financial support of community-based enterprises is important because community members, particularly in low-income areas, are rarely able to raise sufficient funds to finance enterprise development. Private sector institutions, such as commercial banks, are often reluctant to lend to non-

traditionally organized enterprises. Private lenders have been willing to participate in a financing package once community support is evident and some state or federal participation is assured. One state level model is the Massachusetts Community Development Finance Corporation. With an initial legislative appropriation of \$10 million, the agency is authorized to purchase capital participation instruments in enterprises owned or controlled by community development corporations. State senator John Dunlop has proposed a California state bank that would participate in the financing of community-based enterprises. State industrial revenue bonds can also be used to help finance community-based enterprises. New Jersey's bond program provided a portion of the capital needed to finance conversion of the Okonite Company to worker ownership, saving 1500 jobs when the plant was scheduled to close by previous owners.

No federal legislation now exists that is designed to assist community-based enterprises. (Community Services Agency grants to community development corporations are not specifically for community-based enterprises.) A bill introduced in March of 1978, however, calls for federal financing to convert closing plants to worker or community ownership. Funds would be available for economic feasibility studies, financing of the purchase, and provision of working capital (Voluntary Job Preservation and Community Stabilization Act, H.R. 11222). Hearings on this bill may begin in the fall of 1978.

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Several existing federal programs have been used to finance community-based enterprises. The Farmer's Home Administration guaranteed 90 percent of a \$3 million commercial loan that allowed workers to purchase a textile mill in New England that was scheduled for shutdown by its parent firm (Harkavy 1977). In at least one instance, the Small Business Administration has approved loan guarantees to permit the financing of a community-based enterprise (Behn 1977). The definition of eligible small business varies according to the type of industry, ranging from 250 to 1500 employees for manufacturing industries. To be eligible for an SBA loan, the borrower must demonstrate inability to obtain adequate financing at reasonable rates. (For a discussion of the various FmHA and SBA loan programs, see Hayes and Smollen 1976, or contact the appropriate offices directly.)

The program that has been most frequently used in recent years is the Economic Development Administration Title IX program. Title IX authorizes grants to local government in areas suffering from economic dislocation; the grant must be used to implement an adjustment strategy. The local government can then grant or loan these funds to worker or community groups in order to finance a community-based enterprise. As the funds are repaid, a revolving fund is created that can finance additional economic development projects. Although the explanation is greatly simplified, this basic model was adopted by South Bend Lahe in Indiana, Okonite Company in New Jersey, and Allied Plywood in Virginia. This model was suggested, but never implemented, for the proposed worker purchase of Steinthal Corporation in Roxboro, North Carolina (Carlisle et al 1978).

While Title IX has been effectively used in several instances, it does present some drawbacks. Only political subdivisions that meet EDA "distress" criteria are eligible for grants. Each specific state or local project must be approved by EDA, often a time consuming process. Also, it is not certain whether use of Title IX funds would be approved to create new community-based enterprises (rather than purchase closing firms).

Suggestions for North Carolina Economic Development Policy

The overall objective of North Carolina economic development policy—balanced growth, to bring jobs where people live — is a laudable one. It must be acknowledged that recruitment of private industry has provided thousands of new jobs for North Carolinians. In a high growth economy, industrial recruitment is certainly one appropriate strategy. Industrial recruitment alone, however, is not likely to achieve the state goal of balanced growth, nor can an industrial recruitment strategy solve all economic adjustment problems in North Carolina communities.

Enterprise managers make locational decisions in order to maximize profits, not to meet public welfare objectives. Where the economic calculus of the firm and the welfare calculus of the state and its communities coincide, the locational decision will be mutually beneficial. While new jobs will always benefit someone, there is no reason to believe that these private decisions will meet state policy preferences. Nor is employment assured for the less skilled, older workers, or the underemployed. Sole emphasis upon industrial recruitment also ignores the great costs of plant closings, the citizens' desires for an increased voice in economic development and decision making, and the preference for a range of development strategies.

A recent survey of production workers in Person County, North Carolina demonstrates public support for a mix of development strategies. When asked where aid to employment expansion should

be directed, 24 percent said aid to existing business, 58 percent said aid to new business, and 10 percent suggested both strategies. Seventy-three percent of those interviewed believed that government should take an active role in helping employees buy a plant that is closing (Carlisle et al. 1978). Familiarity with a variety of development tools will enhance the ability of the planner to respond to a variety of community economic needs and desires.

Although North Carolina should retain an active program to encourage new investment in North Carolina, a state policy should be developed to assist local planners in responding to diverse community situations. Industrial recruiters, economic planners, manpower planners, community development corporations, and other groups often act in virtual isolation, to the detriment of the total economic development effort. State government can assist local economic development planners by integrating these efforts. North Carolina state government should propose a ninth policy objective for discussion in addition to the eight listed in the recent proposal of the State Goals and Policy Board. North Carolina government can encourage local community initiative, participation, and self-reliance by supporting the development of community-based enterprises.

POLICY: Community-based enterprises can contribute significantly to the economic and social development of North Carolina communities. State government will

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therefore assist the creation of community-based enterprises by developing sources of financial and technical support.

Community-based enterprises can increase the ability of communities to respond to a variety of development needs. CBEs increase local ownership of business, increase jobs and incomes, stimulate community participation in economic development, provide needed goods and services, and reduce the dependency of North Carolina citizens upon permanent government support. CBEs can fill a major gap in state development strategy where conventional enterprise is unable or unwilling to respond.

In view of the potential of CBEs for community development, the state will: (1) explore methods of expanding the availability of financial and technical assistance to community-based enterprises; (2) encourage the participation of private lenders, federal government, and other groups in a comprehensive support strategy; and (3) consider the creation of a state development finance agency to accept and use federal funds, guarantee and participate in private loans, and provide direct state loans, if feasible and necessary, to support community-based economic development.

This suggested addition to the state's balanced growth policy would complement current strategies, moving North Carolina closer to the goal of bringing jobs to where the people are and giving all North Carolinians a voice in directing community development.

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