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Life cycles of LED paradigms in the last 50 years

For many decades we have been reflecting on how to address economic development in general and Local Economic Development (LED) in particular. Constantly changing development paradigms during the last 50 years were based on different world views and interpretations about how to promote businesses and strengthen competitiveness in a changing environment. Development paradigms are not necessarily wrong or incorrect, but they might be insufficient. Early approaches were based

on rather simplistic assumptions on how LED might work. Failed development projects and an increasing understanding of interdependencies and systemic elements in development resulted in more holistic approaches. The life cycles of development in the graphic representation in Figure 2 assumes that the still dominant current systemic approach will be succeeded by a complexity paradigm, offering a more promising way of intervening in complex systems.



The following short description of each paradigm emphasises the interfaces of declining curves with newly emerging curves of the new paradigm. However, the distinctions between succeeding paradigms are not as clear cut as the graphic might suggest. There are always elements of “previous” periods still relevant in “new” periods.



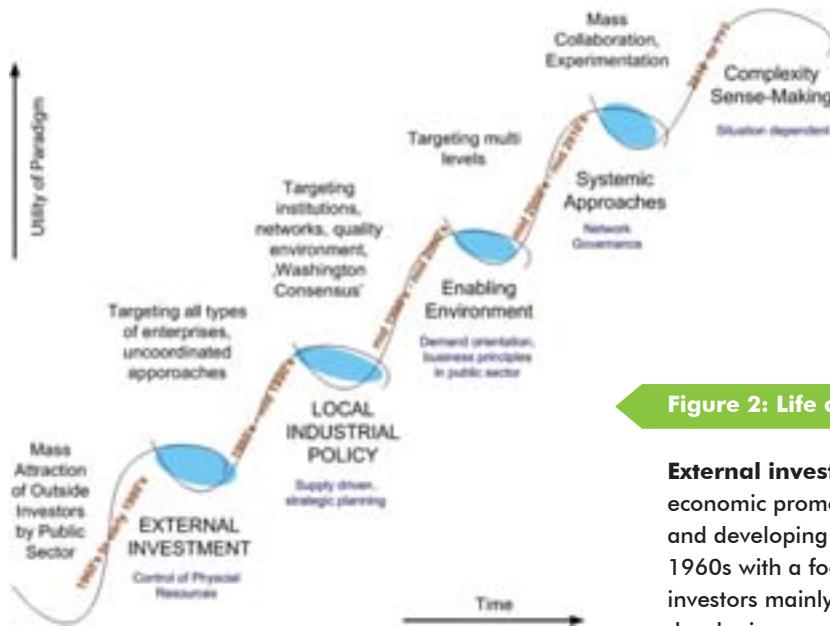


Figure 2: Life cycles of LED paradigms

External investment paradigm: Active economic promotion policies in industrialised and developing countries started around the 1960s with a focus on attracting external investors mainly for two reasons. In many developing countries import substitution models followed the logic of “catching up with industrial development”, attracting external companies into the regions and promoting public and private local industrial conglomerates (especially in heavy industries such as steel or chemicals). In many industrialised countries, the attraction of large businesses in labour-intensive mass-production sectors (such as the automotive industry) contributed to new local employment opportunities based on heavy subsidies, tax breaks or closed market advantages. The “Fordist” production and import-substitution models ran into a crisis around the early 1980s when the specialisation and globalisation of production processes and product development gained importance. The external investment paradigm was too simplistic and was dominated by the belief in the efficiency and



competitiveness of large enterprises. National top-down industrial policy approaches failed to consider more bottom-up development activities and the promotion of local competitive advantages and local SME structures.

Local industrial policy paradigm: The importance of SMEs and the development of local economic advantages gained ground in the 1980s. Municipalities and regional governments started to promote SMEs with a focus on start-ups, existing businesses as well as new investors considering LED potentials. The focus was rather on the quantity than on the quality of support activities. Local strategic planning approaches became relevant, still guided by the public sector as the driving force of development, using instruments such as direct business subsidies and the provision of supply-driven services (such as publicly financed consultancy services, investment promotion credit lines and market research). This was often accompanied by local infrastructure development efforts, such as developing local industrial parks. At the end of the 1980s, this model went into crisis again. Isolated local SME promotion approaches, which were still organised





in a top-down and public sector-dominated manner, failed to deliver the expected impact on employment and income generation. It lacked private sector involvement and a deeper understanding of market failures, market dynamics and government failures.

Business networks and enabling environment paradigm:

LED in the 1990s was promoted by two main intervention areas: promoting business networks at the micro level and promoting an enabling environment at the macro level. This approach was the consequence of the critique of the former development paradigm, which was strongly influenced by the Washington Consensus and its emphasis on liberalisation, deregulation and reduced government involvement. Public supporting institutions at the meso level were mainly considered inefficient, not sufficiently demand oriented and ideally to be privatised.

At the business (micro) level, promotion activities became more network- and bottom-up driven, learning from examples of successful industrial districts in Germany, Italy and other countries. The promotion of business networks instead of individual enterprises and stronger listening to the private sector to understand market requirements gained relevance. This included enhancing network relations among local existing businesses and new start-ups as well as the promotion of selected external investors. The overall approach moved more towards the development of local competitive advantages, including knowledge-intensive service providers. In parallel, enabling environment factors gained importance. Not all international donors and local governments fully bought into the Washington Consensus, but they still pursued a more demand-oriented LED approach. On the one hand, this included the facilitation of private





business services and an increase in the efficiency of public service delivery to SMEs. On the other hand, it called for increasing public management competencies and decreasing red tape at the regulatory framework (macro) level.

Emergence of systemic approaches: While the former LED paradigm was focusing on the promotion of the micro level (business networks) and the macro level (enabling business environment), the coordination between the two levels was rather weak. The lack of consideration of complex interrelations between systemic levels as well as the important role of supporting business and knowledge institutions in coordinating and promoting information gained importance in the first decade of the new millennium. Especially cluster approaches became the new focus of LED, which included strengthening national and local innovation systems, emphasising interdependencies of local and regional public management and promotion capabilities and enhancing knowledge-intensive support structures. Micro, meso and macro policy interventions had to work hand-in-hand to promote competitive advantages. Socio-cultural aspects gained relevance, where patterns of behaviour of the economic actors and the significance of local value systems for economic development were considered.

Network governance was the emerging keyword to express the need for coordination and joint steering requirements of the public and private sector. At the same time, the paradigm was dominated by the understanding that a systemic way of interaction could organise LED in a more efficient manner.

Complexity and sense-making: Is a new paradigm emerging today that will consider the complex interplay of dynamics that are typically involved in development processes? Current discussions within the development community are starting to question the present systemic development paradigm. Its limitations and challenges are being emphasised and additional ways of understanding and intervening in complex economic systems are being sought. Earlier articles in this Annual Reflection present frameworks of, and deliberations on, why and how to intervene in complex realities. This will require more flexibility in testing and probing the dynamics of a given system instead of trying to identify causal relations early on. It presupposes the openness of donors and development promoters to another paradigm shift, and to reconsidering former world views and development practices.

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