

Local Economic Development Issues Facing Canadian Communities in the 1990's

By: Kevin Donahue and Robert Scarpelli

The pursuit of economic growth and development by communities throughout Canada is occurring in a rapidly changing and increasingly competitive global environment. The prospect of fewer restrictions to the movement of goods, services and investment between nations resulting from the Canada - US Free Trade Agreement and NAFTA negotiations illustrates the evolving economic landscape which will confront Canadian communities.

Growth and investment opportunities for Canadian business as a result of fewer trade restrictions will be substantial. However, the challenges facing the Canadian economy will be daunting as we are forced to compete not only locally, but globally for capital investment, corporate product mandates and business expansion.

These changes have significant implications for communities as they can no longer isolate themselves from external forces originating beyond provincial and national boundaries. Furthermore, these outside forces will impact on the importance of each community's traditional asset base or the factors which historically attracted growth and prosperity. Therefore, over the balance of the 1990's, the likelihood of a community realizing economic growth will increasingly depend upon community leaders having a sound understanding of local strengths and weaknesses and their relationship to emerging external forces.

This paper is intended to highlight a number of key factors which will influence the practice of local economic development in the future. These factors include both external (macro) forces from outside the municipality which are generally beyond the control of local governments, and internal forces which reflect the community's asset base. It is critical to the future growth and development of Canadian communities that

they fully appreciate the diversity of trends and issues which will affect their ability to compete for economic development opportunities.

External Economic Development Factors in the 1990's

Much has already been written about the macro level trends and events that are shaping and redefining the Canadian economic environment. It is possible to group many of these forces into four broad categories which include:

- Global Economy and Canadian Competitiveness;
- Structural Change;
- Fiscal Inflexibility; and,
- The Role of Leadership.

The various factors that fall into each category are frequently inter-related. The following is a brief discussion of these factors.

Global Economy and Canadian Competitiveness

The increasingly international outlook of business is consistent with the evolution of a single global market for goods, services and capital. Over the remainder of the 1990's, the control exercised by national and provincial governments over their economies will be eroded, as business and capital markets increasingly organize along international rather than national lines.

This reorganization is being brought about by factors such as:

- The emergence of global consumer, industrial and capital markets as trade bar-



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riers are reduced;

- Development of knowledge-based economies and the difficulties associated with exerting proprietary controls on information;



- The rapid pace at which technology is changing and how its use is diffusing through the economy;
- Advancements in communication technology and information transferral; and

• The emergence of regional trading blocks/alliances.

As the businesses that form the backbone of the Canadian and Ontario economies continue to reorganize along international lines and confront stiffer international competition, the ability of Canadian business to compete at the global level is being severely tested. Nowhere is this more pronounced than in Ontario's traditional manufacturing sector.

With regard to the competitiveness of Ontario manufacturers, much debate has been focused on exchange rates in the past and the need to lower the value of the Canadian currency in relative terms so that our manufacturers are more cost competitive. However, Ontario's long term ability to compete depends on a number of other factors such as scale of production, basic cost structures including labour and capital, labour skills, technology development, adaptability and utilization of new technology, and marketing skills.

Economic Structural Change

There are a number of social and economic trends that influence the shape and character of the Canadian and Ontario economies. They include trade regulations, the structure of our nation's demographic profile and evolution of our industrial base or make-up.

With respect to trade regulations, Canada and specifically Ontario, are still grappling with the effects of the free trade agreement with the United States, at a time when the scope of the agreement may be extended to include Mexico. These influences will only intensify over the rest of the 1990's as the world moves further along the road towards freer/less restricted trade.

The Canadian demographic structure is experiencing dramatic change with declining birth and death rates and the aging of the Canadian population. Hence, the importance of immigration as a source of population and labour supply growth will intensify. In turn, the skill sets of these immigrants will have an impact on the continued growth and development of the economy.

A lower population growth rate combined with shifts in the structure of the economy towards a greater reliance on knowledge based activities, will likely change the focus of our current unemployment problem. If current trends persist, future unemployment will be related not so much to a lack of work opportunities, as to a mismatch between skills and job op-

portunities.

Finally, much has been written about the structural shifts in the economy away from primary and secondary industries, towards service industries and knowledge based activities. While this trend will continue in the future, the importance of selected Canadian primary and secondary industries that remain competitive should not be overlooked. These industries must, however, take the necessary actions to compete in an ever more competitive global market.

Fiscal Inflexibility

Canada's accumulated net debt load reached \$650 billion in 1993, the legacy of two recessions in the past twelve years and a lack of resolve to deal with annual budget deficits. This situation has profound implications for the ability of federal and provincial governments, and increasingly municipalities, to take actions that will enable our economy to effectively compete in the global marketplace. All levels of government face tight financial constraints that severely limit their ability to deal with new priorities without cutting back existing programs.

At the municipal level, greater emphasis will be placed on economic development initiatives in order to maintain local living standards and a fiscal balance. However, municipalities will be forced to develop new means of maintaining and enhancing their local infrastructure and economic base

reflect the needs of society in the 1990's. Current actions of the Ontario and Federal Governments, are at best reactionary in nature as they have not addressed the question of the country's ability to finance government, and especially the extent of social programs that the country can afford to support.

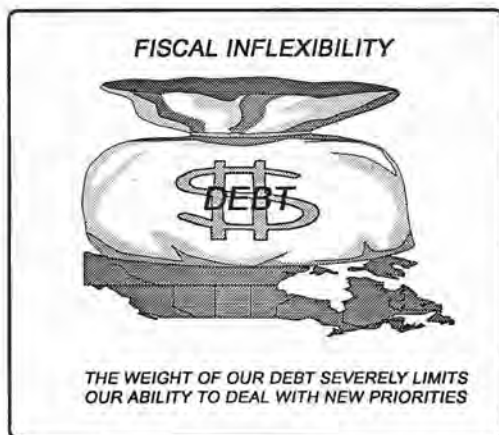
If current public opinion can be used as a gauge to predict future government policy directions, redefining and restructuring government organizations and programs will be a major preoccupation of all levels of government throughout the 1990's.

The Leadership Role

Canadian initiatives to effectively deal with new economic realities appear stagnant at this time, particularly in the wake of our current fiscal situation, the lasting impacts of the recent economic recession, the negative implications of the globalization process experienced thus far, and the structural changes that are impacting all facets of our society. Public and private sector leaders must arrive at consensus on a long term direction and approach to build a competitive, vibrant Canadian economy that can withstand future challenges. In the 1990's, those factors that are most important to economic competitiveness and prosperity must be created, not inherited.

The articulation of this direction is not solely the responsibility of senior government or large corporations. Local governments and small to medium sized corporations can play a significant role in developing future long term economic direction. However, the strategies adopted by different levels of the public and private sector must be complementary, realistic, focused, and within our fiscal abilities.

In summary, Canada's economic base is characterized at the community level by a collection of assets. These local assets represent the foundation upon which local initiatives must be based. However, the success of local economic development initiatives will not only depend upon the strength of local assets, but also the interaction between these assets and those macro level forces which will dictate the rate and direction of growth in the Canadian economic system.



because of cutbacks to program and funding support by senior governments. The form of increased emphasis on economic development will vary from municipality to municipality, depending on local priorities and circumstances.

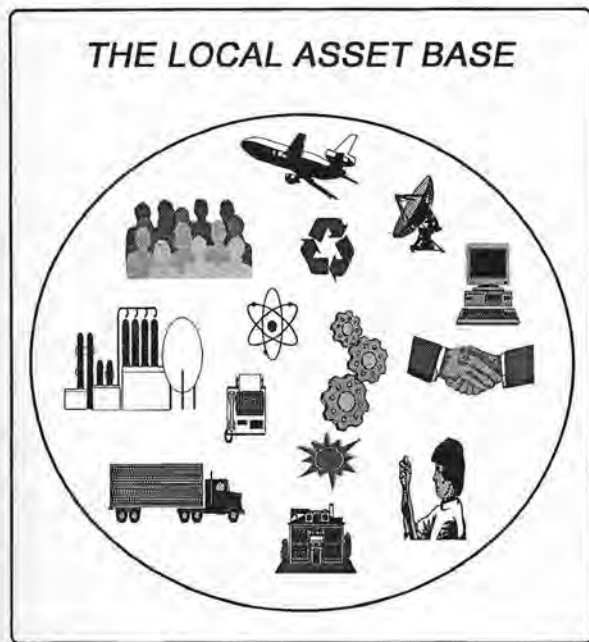
The nation is caught in a vice of debt and web of programs which do not necessarily

The Local Asset Base

Local economic development initiatives must seek to build upon the strengths of existing local assets. Generally, all communities are equipped with a set of local assets which reflect human and physical endowments, past growth and development experience, the existing composition of the local economy, as well as its future development potential. While differences in local assets may be less evident within broad regional economies, whose constituents are strongly linked and highly interactive, communities can generally be distinguished from one another on the basis of the quality of their individual assets, the combination of assets and the manner in which these assets relate to each other.

One can generally distinguish between six major types of local assets that communities possess. These include:

1. Labour;
2. Local Institutions;
3. Industry Mix;
4. Government and Community Support;
5. Transportation; and
6. Quality of Life.



The importance of each asset can vary from community to community. These local assets are also inter-related so that the existence or nature of one will typically influence the effectiveness of another in attracting business to the community.

Labour

Several aspects of the Canadian labour pool, including the education or skill level of the workforce, the cost of labour and entrepreneurial spirit, will be critical local assets in the future. This is especially true given the growing need to increase the overall competitiveness of Canadian business if it is to be successful in the global marketplace.

Having the proper type and mix of skilled and semi-skilled labour will be especially important to Canadian communities given the general movement towards knowledge based activities. While relatively unskilled labour still has a role, these positions will increasingly require a minimum education standard (e.g. computer literate) which is higher than that now required by business.

The supply and skill level of labour in a particular region is influenced by several factors. Particularly significant is the quality of local education institutions, their reputation throughout the academic and business community, the areas of specialization and continuing education offered by these institutions and the annual number of graduates.

Labour is increasingly becoming a highly mobile factor in most economies. The ability of communities to attract labour from other jurisdictions affects the supply and quality of the local labour pool and therefore the perception of an area as a good place to do business. This ability is to a high degree dependent on factors such as the community's quality of life and amenities, the amount and type of employment opportunities already available, wage levels and cost of living, and perceived future growth prospects.

Labour costs are a major expense facing business. In this regard, Canada is experiencing substantial pressures from foreign jurisdictions to contain these costs, particularly in traditional manufacturing sectors where third world nations can provide cheaper labour for jobs requiring limited

skills. Unfortunately, many of the factors determining the cost of labour are beyond the control of local governments. However, local governments must seek ways of controlling costs which eventually impact the local cost of living and therefore wage demands by labour. Local property and business taxes, housing costs, etc. must be compared to competitive jurisdictions, particularly those located outside Canada.

While the cost of labour is a critical factor facing local economic development initiatives, the quality of labour can help offset cost disadvantages. Increases in productivity, efficiency, attitude and dependability of labour can help offset higher labour costs and help Ontario communities compete with out-of-province locations.

Finally, the importance of a sense of entrepreneurial spirit in labour, while difficult to quantify, is potentially a valuable asset in the eyes of business and community investors. Those communities which have dynamic, forward thinking and aggressive businesses usually possess a substantial amount of entrepreneurial spirit, e.g. willingness to accept an element of risk, a readiness to adapt to change and pursue new opportunities.

Local Institutions

Given the trend towards a greater reliance on knowledge based activities by Western Industrial Nations, the presence of reputable and highly acknowledged universities/colleges, plus other government research institutions and private research facilities, will be a significant local asset in the future. For those communities that do not have the benefit of these facilities, ready access or established alliances with them, can still represent an important asset.

Technology enterprises frequently rely on research and development conducted at local universities and colleges. They also utilize expensive technical equipment that is available at these institutions. An established atmosphere of cooperation and willingness to share ideas and resources between the private sector and education institutions has proven to be an important factor in contributing to the increased competitiveness of business and the viability of an area for business investment.

Research conducted at universities and colleges can also lead to the creation of spin-off private companies, act as a locational draw for related firms, and ensure the presence of highly skilled labour in a community.

Finally, the quality and type of continuing education opportunities that local institutions offer is also an increasingly important factor for local economic development. Given the rapid pace at which technologies change, continuing education will be critical to the continued success of many firms. Co-operative efforts between business and institutions, e.g. sharing of facilities and tailoring programs to business needs, will only enhance the local economic development environment.

Industry Mix

The clustering of like or related enterprises, plus the availability of related support and service firms, can be a powerful asset for a community. This is particularly true if cluster firms have healthy market prospects. The benefits to be reaped from clustering competitive and like activities include the potential for alliances, joint ventures, labour pool attraction, infrastructure enhancement, opportunities for achieving enhanced efficiency of production, etc.;

Highly competitive firms have a greater propensity to reinvest capital to retain market share and a leading edge stature in their field. Also, in conjunction with this high level of competition, a dynamic and more entrepreneurial atmosphere can develop locally, which is attractive to investment through the creation of spin-off companies and/or the attraction of existing businesses currently located in other jurisdictions. In general, those industries that will be successful in the remainder of the 1990's, will be lean, focused, technologically advanced and will increasingly form the heart of business complexes or clusters.

With this said, it must be recognized that competition for new business development amongst communities worldwide is intense. This points to the importance of local governments making every effort to maintain their existing business base, enhance opportunities for new start-ups and create a local environment conducive to business efficiency and profit.

Government and Community Support

The policy initiatives of all levels of government obviously have direct and often complex impacts on all aspects of national and local economies. Several areas of policy and control that have significant impact on the local economy come under the jurisdiction of municipal government.

These areas include: development charges and building permit costs, property and business tax levels; the supply of vacant serviced land; flexible zoning policies; supply of community infrastructure and services; responsiveness of government to local business needs; and the ability to access senior levels of government and their development programs.

Given the increasing global outlook of the business and investment community, as well as a commonly held view of Canada as being a heavily regulated country, local governments must take steps to assist business by using whatever practical means they may have at their disposal. Local governments must be more approachable by local businesses, understand the needs of business and where possible, act on behalf of local interests with higher levels of government. An image of co-operation and being "open for business" must be developed by local government. This can be achieved through a review of policies, programs and procedures to determine where adjustments may be appropriate.

Finally, as a community's economic base expands, the activities of the local administration should change according to the needs of the public and business as well as the availability of government and community resources to address those needs. This situation must be continually monitored and appropriate action taken to ensure community resources are used responsibly, efficiently and with the objective of maximizing positive impacts.

Transportation

Locational superiority in terms of access to markets and production inputs has traditionally been a major factor determining local economic development opportunities for most communities. While this factor remains important, transportation must also be viewed in light of a number of other considerations.

For example, recent technological advancements in the area of information systems, data exchange and telecommunications has brought into question whether some industry sectors, particularly those not requiring frequent and substantial movement of people and product (particularly bulk product) can be accommodated at locations with a somewhat lower level of transport and access service. These secondary locations may represent a more practical alternative for businesses if space

related cost savings justify the lower level of transport service.

Transport infrastructure can also contribute to the visibility of specific sites or communities to the general marketplace. Depending on the needs and objectives of individual enterprises, this visibility can be either important or incidental to operations and therefore may or may not be a critical deciding factor in an investment/location decision.

Transportation infrastructure as a local asset must therefore be viewed in the context of the many other factors that will determine a community's future development potential.

Quality of Life

Quality of life factors have come to be recognized as a significant local asset. Factors affecting quality of life may range from the quality of local education facilities, crime rates, the availability of entertainment and recreation facilities, to the provision of open green-space, level of urban congestion, etc. Over the last decade, quality of life has increased as a priority and a determining factor in economic development.

Given the current fiscal situation at all government levels, new public sector spending on infrastructure related to quality of life will undoubtedly be constrained over the balance of the 1990's. However, since communities are compared and evaluated for their amenities and services by prospective investors, it is critical that maintenance and upgrading of existing facilities be given a high priority.

Issues for Local Economic Development in the 1990's

The trends and factors cited in the preceding sections combine to raise a number of major issues which will confront local economic development professionals over the remainder of the 1990's. Although the challenges and opportunities confronting each community are quite distinct, we believe there are five major issues which communities must address in their efforts to pursue future economic growth. These include:

- Controllability of Local Economic Development;
- The Impact of Perception;
- Fiscal Resources;
- Competitiveness; and
- Compatibility.



Controllability of Local Economic Development

The removal of trade barriers and the evolution of a global marketplace for goods, services and investment has raised the concern as to a community's ability to control its economic destiny. In fact, communities can influence their local business environment and economic future through the control of assets and where possible, the modification of government policy.

Controllability as an issue confronting future development will intensify in the future as the new economy places fewer restrictions on the movement of investment capital. Clearly, local government must come to fully appreciate the macro-economic forces beyond their control. Furthermore, they must take stock of those local assets that can be used in the aggressive pursuit of future development opportunities. Communities must create a focused, realistic and effective strategy for pursuing development opportunities.

The Impact of Perception

How a community, region or nation is perceived by investors, both domestic and international, can be a critical factor influencing economic growth prospects. A community's image has been a traditional concern for local economic development officials, as communities can often be misrepresented due to exaggeration or misinformation. Often, perception problems can affect the image of an entire nation through issues such as national unity, cost of living, social assistance programs, etc. At the local level, image can be created by perceptions of land costs, property taxes, local quality of life, etc. Therefore, a country or for that matter a community, cannot

afford to be perceived in a negative light if it is to attract economic development. Both must effectively counter perceptions held by potential investors through the use of assorted and creative information vehicles.

Fiscal Resources

The current fiscal crisis for all levels of government in Canada has significant implications for

the practice of local economic development. Communities are being forced to absorb a greater share of the costs of local services as senior levels of government reduce funding to relieve serious budget deficits. Local government is therefore being forced to reassess the allocation of resources to all departments, including economic development.

While local government must strike a balance between its size, structure and the goals and objectives of the community, caution must be exercised when downsizing departmental or program budgets. It must be recognized that economic development initiatives are important to maintaining and increasing local employment levels, property taxes and development revenues which in themselves, can support other municipal objectives.

Competitiveness

The ability to compete in today's economy and attract investment is an area of intense concern for all levels of government in Canada. It is, therefore, critical that local governments understand the merits of their own asset base, but also investigate the strengths and weaknesses of their primary competitors in order that they can effectively respond to these competitors in the marketplace.

Local government must also recognize that the competition is increasingly coming from foreign nations. Hence, communities must be able to respond to these competitors through programs to improve local assets and vehicles to educate investors as to the merits of their communities.

To effectively compete with foreign nations, Canadian communities should also explore the opportunity for establishing

partnerships with neighbouring communities that have similar goals and objectives for development. This will require, in part, a dismantling of traditional adversarial thinking between local communities in their pursuit of development. Furthermore, it must be recognized that development within a region can generate benefits over an area which extends beyond local boundaries. Through this approach, the combined assets of a region can exceed those of the individual communities in the eyes of investors. Hence, a strategic alliance of communities can potentially benefit all partners in the pursuit of economic growth and development.

Compatibility

National events and global business trends are reshaping and redefining the Canadian economy and testing our ability to adapt to the new economic reality. These events also make it quite clear that local economic development initiatives cannot be undertaken in isolation. Local initiatives must be compatible, if not consistent, with the parameters imposed by a global economy.

Also, local economic development initiatives must be cognizant of the programs and policies of the provincial and federal governments. This does not suggest that economic development initiatives should be directed or controlled by senior government efforts, but it does raise the need for consensus building amongst all levels of government and the public. Furthermore, inefficient or redundant programs must be identified and cancelled.

Conclusions

The practice of local economic development in Canada will face a diverse and complex range of issues and challenges over the remainder of the decade and well into the next century. The significance of these challenges is made greater by the fact that the Canadian economic landscape is rapidly being reshaped as we confront the new realities of a global marketplace. The influence of major external (macro) forces on the local asset base of Canadian communities gives rise to several critical issues which must be dealt with by communities if they are to successfully compete for future growth and development. Those communities which understand these forces, the new competitive environment and the value of their local assets, will have a greater chance of achieving future development goals and objectives. □