

Research for communities

GOVERNMENT SUPPORTS FOR PRIVATE SECTOR NEW ECONOMY VENTURES SHOULD BE AVAILABLE TO COMMUNITY ENTERPRISES

Community-based development has a legitimate claim to the levels of government support that exists for the New Economy

Governments around the world usually have two messages for proponents of community-based economic development who come in search of public support. The first is that the candy-shop is closed. The fabled days when government economic strategies involved subsidizing local and regional growth—particularly in disadvantaged

communities—are over. While the state may be willing to provide short-term project money for a local community-economic development initiative, such grants are usually accompanied with a strong message to become economically sustainable as soon as possible since there will be no long-term support.

This rather gloomy message is accompanied by the more hopeful reassurance that the already developing New Economy will bring direct and indirect benefits to those citizens who were excluded from the old economy. One of the chief claims of advocates of the New Economy (often described as the outcome of rising levels of education, the spread of information technology and information, and the increased trade in services, mergers and acquisitions) is that it has developed largely on its own, without need for traditional state support or subsidy. Governments ask why they should fund CED initiatives when they can rely on a subsidy-free New Economy to create not only economic growth but to

The Business Development Bank of Canada supplies investment funding to many private sector New Economy firms.

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bring employment and opportunity to the economically marginalized.

The short answer to this question is that the claims being made on behalf of the New Economy are simply too good to be true.

It is true that information-technology-related enterprises represent an important and growing sector of the economy with the potential to create economic benefit for marginalized communities. For example, in the case of inner cities, deindustrialized regions, and remote rural communities, the digital revolution presents the possibility of more educational opportunities, improved capacity to access government, better and more responsive state services. However, claims that the New Economy has developed—or will continue to develop—without government assistance and will inevitably ensure that its benefits are spread to those who were excluded from the benefits of the Old Economy, do not bear up under close scrutiny.

The New Economy is heavily dependent on public support for innovation and development, infrastructure and expertise, subsidies for private firms, and marketing and branding assistance. All of this dwarfs the sorts of piecemeal support that is provided to most CED initiatives, both in terms of the amount of funding and the strength of government commitment to the sector. And with few exceptions, this support is granted without any requirements that the New Industry firms address the underlying economic and social questions that CED approaches target.

NEW ECONOMY THINKING

While a great deal has been written about how a country or a region can stimulate and encourage innovation and continuous learning, there has been little thought given as to how to best distribute the benefits of such innovation. In large measure, the expectation is that these benefits will simply trickle down to the most marginalized populations. Much of the expert advice available to governments actually favours policies that make it unlikely that marginalized communities could benefit from New Economy initiatives.

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Current mainstream theories all stress the importance of interlinked national or regional systems of technological innovation and promotion. At the heart of these systems are private and public firms that engage in intensive research, research universities, and government labs. In an effective system, these players collaborate, creating a continuous process of learning. These systems often appear in what have been termed clusters of inter-related firms, suppliers, and institutions, the most famous of which in North America, is California’s Silicon Valley. It is argued that these clusters enhance competition, productivity and innovation.

While these theories offer nothing to those communities that have not already enjoyed considerable market benefit, they do countenance considerable state support

for many private sector New Economy initiatives. *State Policies to Enhance the New Economy*, a 2005 comparative analysis carried out by three Manitoba researchers, Michael McKenzie, Byron Sheldrick, and Jim Silver with the support of the Manitoba Research Alliance on Community Economic Development in the New Economy and published by the Canadian Centre for Policy Alternatives-Manitoba, studied 19 political jurisdictions around the world (including all 10 Canadian provinces, four American states, the United Kingdom, Ireland, Singapore and India) shows. The study identified four different types of governmental New Economy policies and initiatives:

- Innovation and investment
- Direct investment in public infrastructure and expertise
- Public support for private firms
- Marketing or branding

POLICIES INTENDED TO CREATE AN INNOVATION AND INVESTMENT ENVIRONMENT

Aside from general tax, trade and regulatory policies, this category included focused research and development tax credits, protection for intellectual property rights and copyright. These policies were aimed at increasing investment and innovation in the knowledge-based economy.

Canada, has one of the most generous research and development tax credits (20 per cent) of any of the countries in the Organization for Economic Cooperation

and Development. All but two Canadian provinces offer their own research and development tax credits.

The United States offers a tax credit that works out an average of 10 per cent. To encourage innovation the government of



The government of Singapore offers assistance in branding to New Economy firms.

Singapore defrays the costs that small and medium-sized businesses would pay to patent intellectual property, while the Irish Republic provides tax exemptions on royalty income.

DIRECT INVESTMENT IN PUBLIC INFRASTRUCTURE AND EXPERTISE

This includes supporting and creating research facilities, research parks, higher education facilities, telecommunications infrastructure and networks of expertise and knowledge sharing with the goal of creating an educated workforce and new public knowledge.

All 19 jurisdictions surveyed provided support to advanced networks of research laboratories. These laboratories are key elements of any national system of innovation. India has a Centre for Advanced Technology a Central Electronics

**CANADIAN CENTRE
FOR POLICY
ALTERNATIVES-MB**

309-323 Portage Ave.

Winnipeg, MB

Canada R3B 2C1

ph: (204) 927-3200

fax: (204) 927-3201

ccpamb@policyalternatives.ca

www.policyalternatives.ca

Engineering Research Institute, and a network of Software Development Parks, while Singapore has a network of public research laboratories that could be seen as being out of proportion to the country's population.

PUBLIC SUPPORT FOR PRIVATE FIRMS

New Economy firms can take advantage of a wide range of government supported repayable loans, grants, venture capital programs, business incubators, information networks, trainings supports, and public-private partnerships.

For all its promise, the New Economy remains a risky one and start-up operations have difficulty gaining access to venture capital. To help new firms overcome this, governments around the world support a variety of specialized venture capital firms. Assistance is also offered to companies that are attempting to navigate a complex global economy where market conditions are constantly shifting. All 19 government jurisdictions devote significant resources to the creation of incubation facilities, designed to nurture enterprises during the earliest stage of development.

MARKETING OR BRANDING

Governments, like businesses, brand and advertise what they offer. Branding, the most general type of promotional effort, is the promotion of a jurisdiction as if it were a product for sale. It starts from the view that if investors and highly skilled people from outside a jurisdiction are not made aware of what is being done to promote the New Economy, little foreign investment or expertise will be forthcoming.

As a part of Canada's Innovation Strategy,

the Canadian government seeks to improve Canada's image among investors and skilled workers. New Brunswick promotes itself as a gateway to the North American market, drawing attention to the province's location, strategic infrastructure, bilingual workforce, and an investment environment.

CONCLUSION

There are then, at least two lessons in this for proponents of community-economic development. First, they should realize that they have a legitimate claim to the levels of government support that exists for the New Economy (and indeed many other sectors of the Old Economy). Governments may have changed the nature of the supports that it provides to the private sector, but those supports are still there. CED proponents can make these claims because CED initiatives offer both the prospect of economic growth and a commitment to ensure that marginalized communities enjoy the benefits of that growth. Secondly, CED proponents should also be asking governments to assess more of their economic development initiatives on the basis of the principles of community development.



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