

AN ALTERNATIVE
ECONOMIC DEVELOPMENT STRATEGY
FOR THE CITY OF WINNIPEG
BASED ON THE PRINCIPLE OF SELF-RELIANCE

BY

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Abstract

This thesis investigates the causes of urban economic stagnation by questioning the qualitative, rather than quantitative, basis for measuring aggregate economic growth while advocating the alternative theories of Jane Jacobs and the Institute for Local Self-Reliance which emphasize internal potential over dependence on externalities. The theory is applied to a case study of Winnipeg's urban economy. The case study includes a critique of the works of Winnipeg urban analysts, reviews of consultant reports, journals, trade magazines, and government initiatives, and interviews with representatives of organizations concerned with the Winnipeg economy.

Significant results could be achieved by re-structuring existing institutions to establish a municipally-based Winnipeg Business Development Corporation, a member organization of the Winnipeg Chamber of Commerce, responsible for overall initiation and synchronization of development. Strategic progress depends on participation by the business community in an informal networking program and the accuracy of economic data on which to base decisions.

This is one type of economic development strategy meant to emphasize co-ordination and co-operation of all jurisdictions for the overall betterment of the Winnipeg economy.

TABLE OF CONTENTS

Chapter 1: <u>Introduction</u>	1
Purpose	1
Economic Development Strategy - A Definition	2
Problem Statement	4
Hypothesis	6
Methodology	7
 Chapter : <u>Theoretical Premise</u>	9
Growth Versus Development	9
The Need for a Social Economics	14
Summary: Maturation of Theory into Strategy	17
 Chapter 3: <u>Economic Base Theory</u>	21
Introduction to Economic Base Theory	21
The Theory	21
Techniques of Quantifying Economic Base	23
The Multiplier	29
Location Quotient	30
Complexities Within The Theory	32
Input-Output Analysis	34
Merits of the Theory	35
Weaknesses of the Theory	35
 Chapter 4: <u>Hans Blumenfeld's Criticisms</u>	42
Introduction	42
Biases	42
Weaknesses	43
Observations	44
Directions for Alternative	44
Summary	46
 Chapter 5: <u>Jane Jacobs' Economy of Cities</u>	49
The Urban Crisis	49
The Strategy	50
Tactics	55
Tactics that Will Succeed	56
Tactics that Will Not Succeed	59
Jacobs' Methodology	62
Internal Dynamics	64
Public and Private Sectors	66

Chapter 6:	<u>Local Self-Reliance</u>	73
	The Institute for Local Self-Reliance	73
	Concept of Local Self-Reliance	74
	City as a Tiny Nation	79
	Economic Development Strategy	81
	Tactics	84
	Social Change	86
	Public Sector	88
	Private Sector	91
Chapter 7:	<u>Theoretical Conclusions</u>	97
	Summary	97
	Context	98
	Considerations	101
	Recommendations	104
Chapter 8:	<u>Winnipeg's Economic Base</u>	107
	Introduction	107
	The Economic Base Study - Objectives, Intentions, Recommendations	107
	Study Methodology	109
	Economic Base Concept	115
	Theoretical Premise	119
	Import and Export	123
	Role of the Service Sector	126
	The Impact of Slow Growth	131
	Development of a Data Base	132
	Historical Development	134
	Summary	135
	Recommendations	136
Chapter 9:	<u>Practical Considerations</u>	144
	Introduction	144
	The Municipal Authority	144
	Federal Government Assistance	146
	The Role of the Provincial Government	148
	Bi-Level and Tri-Level Agreements	152
	Research and Development	154
	The Role of the Private Sector	156
	The Winnipeg Business Development Corporation	157
	The Federation of Canadian Municipalities	159
	Comparative Case Studies: Vancouver and Minneapolis	160
	Summary	163
	Recommendations	164
Chapter 10:	<u>Conclusion</u>	170
	A Discussion	170
	The Strategy	171
	Conclusion	174
	Bibliography	176

LIST OF ILLUSTRATIONS

Figure 1: Growth conceived as an "s" curve	12
Figure 2: Relationship between basic and non-basic activities . .	23
Figure 3a: The circular flow	24
Figure 3b: The circular flow with inputs and outputs	24
Figure 4: Alternative methods of computing multiplier	26
Figure 5: Input-output table	34
Figure 6: A reciprocating economic system	66
Figure 7: Per capita costs of services	91
Figure 8: Methodology for <u>Economic Base Study</u>	109
Figure 9: The effect of growth on the mill rate	122
Figure 10: Comparison of employment changes in Manitoba's economy.	129
Figure 11: Comparison of changes in output in Manitoba's economy. .	129
Figure 12: WBDC organization chart	159

Chapter 1: Introduction

Purpose

This thesis is an in-depth analysis of alternative theories of the causes of urban stagnation and of strategies to stimulate urban development and an application of these theories to a case study of economic development in the City of Winnipeg. The conclusion of this examination and application will be an alternative economic development strategy uniquely suited to Winnipeg's special needs.

Current strategies that address the problem of stimulating Winnipeg's sagging urban economy have yet to meet with a great deal of success or, alternatively, no strategy whatsoever exists. A comprehensive urban development strategy is the basis for all urban development policy. The first step in reviving Winnipeg's economy is agreement on the overall development strategy which will determine ongoing economic priorities and decisions.

Examination of strategic economic initiatives in the City of Winnipeg indicates two features. First, there are a number of different groups and levels of government concerned with Winnipeg's economic development. There is a lack of coordination between these groups and there are areas of overlapping jurisdiction and concern between levels of government and the private sector. The exact nature of these concerns and overlaps is the subject of discussion in the Winnipeg case study found in chapters eight and nine of this thesis. It is enough, at this point, to state that this situation exists and will be demonstrated in greater detail later in this thesis.

Economic development would proceed more smoothly and successfully if co-ordination existed and jurisdiction was precisely defined. This would be the role of an economic development strategy. Close examination of the Winnipeg situation reveals that, in lieu of a strategy, economic development is dictated by underlying theoretical precepts. It is the contention of this thesis that these precepts follow the principles of economic base theory and so constitute an unspoken, not agreed-upon but operative, economic development strategy.

The purpose of this thesis is to go back into the theory, examine the implications of economic base theory, trace the development of theory into the realm of concerted, harmonious economic development strategies, then apply these theoretical investigations onto the Winnipeg case study. The assumption is that this process of linking theory to practice will indicate a unique development strategy suited to stimulating the Winnipeg economy. Priorities will be placed on determining the appropriate jurisdictional level at which to implement strategy, determining measures that will most expediently enhance discernable economic trends, and aiming at the least possible degree of intervention in order to produce positive economic change.

Economic Development Strategy - A Definition

It is important, before proceeding further, to come to an agreement as to the usage of the term "urban economic development strategy". A misuse of this term can bring to mind rampant government intervention into the concerns of the private sector. This is not the connotation the term is meant to take on.

An urban economic development strategy refers to an agreed-upon set of principles and goals that dictate a limited number of courses of action for the purpose of enhancing and shaping those factors that make up the economy of an urban region. Further, a strategy would delineate among the possible courses of action, the most desirable series of events and techniques to shape or encourage circumstances in such a manner as to facilitate the desirable scenario.

The strategy is differentiated from the policies, which would follow out of the strategy and provide back-up to the strategy but are separate and distinct from the strategy, and from tactics, which differ from policies in that tactics are techniques or short-term measures which enact policy and keep the overall strategy on course. Strategy is the product of theory and incorporates value judgements; strategy shapes policy and tactics are the tools and measures that, taken in total, make up the events of a strategy. A simple analogy would call strategy the game plan, policy are the plays that constitute the game plan, and tactics are the players or moves that make up the plays.

The measure of success or failure of a strategy is application; no strategy can be said to have worked or not worked until it has been tried out. The amount of funding available to initiate a strategy would have some effect on its outcome. A strategy could be said to be successful if there were definite signs of economic improvement in those areas targeted by the strategy. The best strategy, then, is one based in a thorough reading of the practical context so that the strategy facilitates and makes stronger development trends with the most potential. A strategy that attempts to foster economic development in those sectors that the

urban region has no natural proclivity for will, in the first instance, most likely, not be successful although sufficient funding can make most things possible. The search for an alternative urban economic development strategy for the City of Winnipeg is predicated on this assumption, that the best strategy is to foster development in those areas that show evidence of an economy's natural inclinations.

Within the complex of infrastructures that, taken in total, constitute a city, the economy can be viewed as the base from which rises a superstructure of social and property relations and a physical inventory of spatial relationships. No city, no matter how well developed physically, socially, or culturally, can be viable without a functioning economy. The financial network is the foundation which supports the entirety of the urban complex. As such, an economic development strategy is a necessary component of the city planning process. City planners have been, and will continue, contributing to the search for a successful economic development strategy. This thesis is another link in the chain that makes up the economic development segment of the city planning process.

Problem Statement

The problem is suggested by a long term examination of trends in the Winnipeg economy. The current slow growth trend indicates that the urban economy is in a down turn. Lack of economic development, then, is the problem. The assumption of this thesis is that the solution to this problem lies in determining a suitable, innovative strategy resistant to economic stagnation and fluctuation in the urban economy.

One approach to the problem of economic development is to appraise theory and assign blame for shortfalls of development to the theory. In order to construct an alternative urban economics the first step is to establish criteria to judge theories that purport to offer a viable option.

As already pointed out, an examination of the literature on economic development indicates that the theory underlying current development initiatives is economic base theory. This theory is one of the traditional theories in the disciplines of urban economics and urban geography. The authority that economic base theory maintains within current economic development analysis is indicated by the title of McNeal, Hildebrand and Associates' comprehensive report on the Winnipeg economy, the Economic Base Study. This report merits special attention in this thesis for three reasons. First, it is the most comprehensive study on the subject to date. Second, as a background report to the Plan Winnipeg Review, it has been highly influential in determining ongoing policy. Third, in the overall it is a well done study and can be used as a standard to compare and contrast other studies and to set requirements for future studies.

The founder of alternative theory, i.e. the first theorist to indicate the directions for making a transition from explanatory theory to economic development strategy, was Hans Blumenfeld. Blumenfeld's critique of economic base theory included two recommendations which have been developed by urban economists Jane Jacobs and David Morris. These are the two theories that this thesis examines to assess their conceptual potential in the construction of an alternative development strategy for the City of Winnipeg.

Hypothesis

The hypothesis follows directly from the assumption that shortcomings in Winnipeg's current economic development condition should be examined first from the theoretical perspective. The hypothesis is:

Whereas

Winnipeg's current slow growth trends represents a crisis rooted in a stagnating local economy, and

Whereas

Inabilities on the part of the public and private sectors to create economic stimuli through existing programs are the result of using traditional economic theories,

Therefore it is hypothesized that

A strategy for economic revival should be based on support of internal growth industries for the purpose of establishing a reciprocating urban economic system founded on self-reliance.

At this point, some of the terms used in the hypothesis, internal growth, reciprocating economics, and self-reliance may demand immediate definition so that the reader can determine whether the hypothesis is verifiable or not. Each term is of particular significance to the alternative urban economic development theories of Hans Blumenfeld, Jane Jacobs, and David Morris will be clarified and expanded at the point where each theory is reviewed. What is important is that it is upon this hypothesis that the direction of this investigation revolves. Recognition also is given to the opposite point of view. Arguably it is possible that traditional theory always has been and will be "correct", that upcycles and downcycles are the natural order and should be left to work themselves out, and that "alternative" theory goes nowhere. Neither

argument can ever be empirically demonstrated or proved correct. This inquiry is heuristic and explanatory and the hypothesis is designed to probe norms as well as facts, and concludes with an investigation of what alternative theory has to offer of practical value to Winnipeg's urban development.

Methodology

The material is categorized under ten chapters. Chapter one is an introduction stating the purpose, problem, hypothesis, and methodology. Chapters two through seven contain the theoretical portion of the thesis. Chapters eight and nine contain the Winnipeg case study. Chapter ten explains the alternative economic development strategy for the City of Winnipeg. The strategy includes both the conclusions and the recommendations of this investigation although the strategy is developed from the recommendations of the theoretical and case study sections. Each of these two main sections constitutes two sub-sections, the theory section made up of traditional versus alternative theories, and the case history contained within the chapters on analytical approaches and practical initiatives.

The theoretical section is based on the contrast of traditional economic base theory to the alternative theories of Hans Blumenfeld, Jane Jacobs, and David Morris; four chapters in all providing equal attention to each of the alternative theorists as is paid to traditional theory despite the fact that all three are seen as constituting one theoretical approach. This thesis is predominately theoretical in its orientation so that the theoretical sections constitute over half of the review. Because of this the literature review of traditional and alter-

native economic development theory is bounded by introduction and conclusion chapters and the hypothesis upon which this thesis is based is directed entirely to theoretical matters. The concluding chapter of the theoretical section sets down eight recommendations meant to provide a condensed summary of the most significant initiatives underlying a responsible and creative economic development strategy.

The other section, the Winnipeg case study, is made up of two equal subsections, the analytic and the practical. Rather than being contrasted as were the theoretical sub-sections, these two are seen as complementary, the analytic providing the transition between theory and practice. The McNeal and Hildebrand Economic Base Study is the core around which a literature review of analytic approaches to the Winnipeg economy is based. This is intended to extract from the Economic Base Study the most useful information and methods while at the same time critiquing it from a theoretical perspective as well as supplementing the study with insights from other urban analysts. The practical sub-section focuses on a description of current approaches and events in Winnipeg's economic development. This was found in the trade journals and the literature of business associations and government, along with interviews of participants in the local economic development scene. Each of the two subsections, dealing directly with the situation under examination, yields a set of recommendations toward determining an economic development strategy.

The concluding chapter derives directly from the three sets of recommendations as a whole and from the summaries. It is intended to be the most brief summary possible of the theoretical directions, the analytical approaches and the findings of actual practice.

Chapter 2: Theoretical Premise

Growth Versus Development

The problematic that informs this thesis is growth versus development. Stated otherwise, this dichotomy contrasts quantity to quality or expansion to evolution or increase to transformation or machine systems to learning systems. Growth and development, economic categories, call for a more nuanced definition for which I turn to the economists.

The Dictionary of Modern Thought defines economic growth as "increase over time in real national income per head".¹ Economist Edgar Dunn defines growth as the implication "that an activity system is increasing the scale of its social structures and the quantitative level of its activities. Population, employment, income, etc. are dimensions commonly used to reflect these changes in level or scale".² Economist Michael Conroy defines urban economic growth as "increases in population within a specific urban area, increases in the number of jobs within that area, or increases in either the quantity or the value of the goods and services produced in a local economy. These quantitative changes do not necessarily lead to qualitative improvements in urban life".³

Growth theorists assert that the antonym of growth is no-growth, regression, or reduction. Growth is an alluring concept for social scientists because of its statistical measurability. Fred Hirsch reports that the utilization of the growth concept proliferated after the Second World War as a product of the statistics⁴ and that the compelling attraction of the economic growth approach in its institutionalized modern form is that it can be used by theorists as a substitute for redistribution⁵, a much more difficult concept to manipulate. The

favorite metaphor of growth theorists is the expanding economic pie. This is countered by theorists willing to accept redistribution, such as Hazel Henderson, whose imagery is a finite pie.⁶ Thus, the reverse of growth is not necessarily diminution but the alternative concept of development.

For Dunn, development assumes "that an activity system is transformed in the mode of its behavior."⁷ The Dictionary of Economics defines economic development as "the process of their economies"⁸ or, expressed more simply by George Dalton "economic development is growth plus change and the change involves society as a whole".⁹ Conroy defines urban economic development as "increases in the quality of urban life associated with changes, not necessarily increases, in the size and composition of the population, the quantity and nature of local jobs, and the quantity and prices of goods and services produced locally. Analysis of urban economic development requires superimposition of value judgements with respect to the desirability of the quantitative changes in the urban area".¹⁰ Urban economic development could include the variable of growth. In such a case, the statistical techniques used to measure growth could be used as an indicator of the level of economic development even though the figures provided a one-sided, incomplete picture. Dunn makes the comparison of machine systems versus learning systems where the machine system, which corresponds to all the growth models, is characterized by a fixed behavioral program like a computer¹¹ while a learning system, which corresponds to development models, has the capacity to be reprogrammed in its behavior or to reprogram itself through action of internal sources of new behavioral ideas, transformation motives, and transformation behavior and thereby embody new organizational structures.¹²

Hirsch points out that growth, as interpreted by modern economic theorists, pertains to the supply side of the equation. The project is one of harnessing and augmenting the technological, financial, and labour demands. Consumption is the ultimate source of these demands. Consumption is the true subject and object of economic growth even though the context and composition of consumption is not brought into the analysis.¹³ In contrast, consumption on a substantial level is intrinsic to economic development theory since human expectations as well as available resources are incorporated into the analysis. Expectations, which influence consumption, must, in a time of depleting resources, be affected by a measure of restraint. The characteristics necessary for the development of restraint are not patience but stoicism, acceptance, and social cooperation - qualities that are out of key with our cultural values of individualistic advance.¹⁴ Correctly understood, economic growth can be interpreted as growth in the capacity to meet these individual and collective consumption demands.¹⁵

Focusing on growth, to the exclusion of development, puts economic theory into a double bind. Growth can be conceived statistically as an "s" curve (see Figure 1). The first phase of the curve is characterized by a behavior pattern of maximizing growth through vigorous competition and absolute control of the ecosystem in the form of exploitation. A new phase is entered as the curve reaches its fulcrum point where past behavior patterns are no longer rewarded. Growth gives way to diversification and maintenance, competition to cooperation, and exploitation of the ecosystem is transformed into restoration and recycling.¹⁷ Henderson alleges that the implications of this observation are devastating for economic theory. Hirsch further qualifies the double bind,

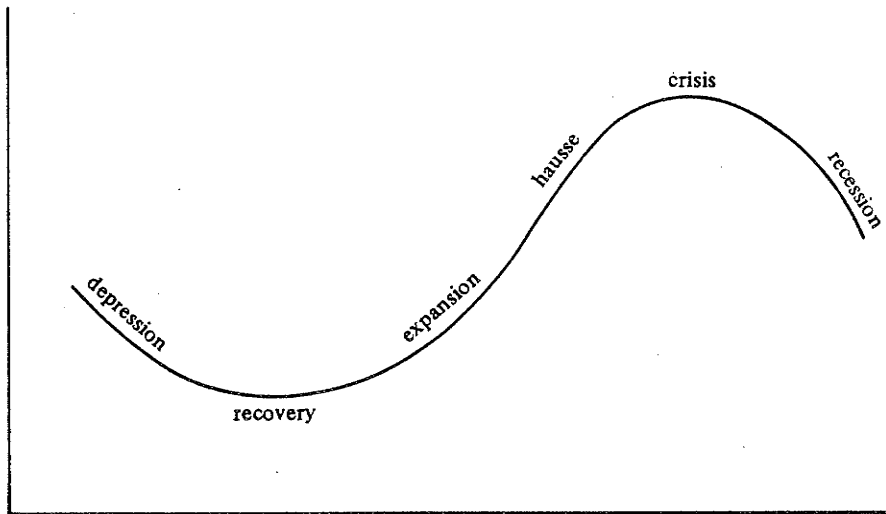


Figure 1: Growth conceived statistically as an "s" curve, showing the phases of a cycle.

which he calls the dual social limits to growth. The priority and promise of economic growth are qualified by:

1. the paradox of affluence - economic growth in advanced societies carries some elements of built-in frustration: the growth process, when sustained and generalized, fails to deliver its full promise. The growth process runs into social scarcity.
2. the reluctant collectivism - continuation of the growth process itself rests on certain moral preconditions that its own success has jeopardized through its individualistic¹⁸ ethos. Economic growth undermines its social foundations.

It is my contention, and the subject of this thesis, that development rather than growth should be theorized, with concentration on qualities rather than on quantities. Conroy identifies the three types of urban economic development research available:

1. popular, easy readable essays providing engaging suggestions and some fragmentary evidence to support these suggestions;
2. professional monographs on various aspects of the urban economy which serve as a guide to policy makers;

3. urban economic texts which review professional research for the purpose of constructing theories rather than guiding policy.¹⁹

Conroy's example of the first type is Jane Jacobs' The Economy of Cities which he describes as misleading because she ignores or neglects most of the academic and professional research on cities done over the past forty years.²⁰ It is my contention that Conroy is incorrect not in his judgement of Ms. Jacobs' methodology but in the relevance he attributes to the subject matter of the book and to its historical position in development literature. Far from being misleading The Economy of Cities represents the systematic introduction of an economic development approach focusing entirely on qualitative aspects of urban planning. Jacobs relates problems of economic development to social goals rather than hiding behind numerical evaluations and patent statistical techniques. The book is the first on the subject of economic development which makes only a passing reference to the concept of economic base,²¹ a concept steeped in the tradition of economic growth and a basic conceptual technique for measuring economic growth.

I agree with Conroy that The Economy of Cities clearly belongs in the development school of urban economic research and that the scholarship is academically deficient. For me the book represents the stages concept of economic development which addresses the problem of sequence, i.e. the decision of which ideas and techniques should precede other ideas and techniques. Historical evidence is investigated to identify the order of succession followed by advanced economies. These sequences are visualized as a template to guide a learning process designed to bring backward economies to modes of behavior more closely approximating those of advanced economies.²² It is not the purpose of this paper to

determine whether this technique is the most desirable. I simply note its appearance in Jacobs' work. She was the first theorist addressing the problem of urban economic development to respond to a pressing need - the need for a social approach to economics.

The Need for a Social-Economics

A social-economics emphasizes quality rather than quantity. Rather than using statistical analysis of the current situation to project a future situation, necessarily omitting critical data such as trade cycles, social-economic analysis makes value judgements and recommends economic strategies or policies that would direct and change future alternatives. The goals of social-economics are summed up by Robert Theobald in his statement:

...the causes of our problems today are not economical but social. The role of economics in finding cures must be subsidiary to the rebuilding of effective neighborhoods and communities and the reintroduction of values which will reinforce rather than destroy social solidarity.

The critical change in positive terms will be a recognition of the need for profound alterations in life styles and life cycles to face new realities. Resource and energy limitations, the impact of computers and robots, and demands for new international economic systems to ensure greater justice will all require that we recognize the infeasibility of striving for maximum growth and maximum employment.²³

Theobald reaffirms the social, as opposed to statistical, nature of the urban economic problem and targets the solution as humanistic values. Implementation of policies based on these values rather than considerations of profit will strengthen the social fabric of the neighbourhood and community. Revival of these values will enable planners to face problems of expectations, limited resources, and advancing technology. Emphasis will shift from growth to development, that is social change rather than maximization.

In order to inaugurate a new social-economics it would be necessary to take into account current economics and specifically what is left out or hidden within economic calculations. Henderson notes that growth theory, which takes Gross National Product as a major indicator, hides within this calculation the negative effects of the policy which are the social and environmental costs of growth. Following Ralph Nader's well-known quote that "Every time there is an automobile accident the GNP goes up", Henderson singles out the cleansing of production and consumption wastes, the maintenance of adequate supplies of clean air and water, the care of increasing numbers of human casualties of massive, incomprehensible technology and inhumanly scaled organizations, the mediations of conflicts, the control of crime, addiction and other pathology and general maintenance of a fragile social homeostatis as hidden social costs which are counted in the GNP as positive production.²⁴ These negative effects of unregulated growth provide an initial set of indicators of the failure of current economic policy.

The next step is the establishment, at least in principle, of a flanking set of social indicators which quantitatively measure economic output in order to present an integrated system of statistics comparable to the national income accounts. Unfortunately there is no social performance indicator that can be calculated systematically and understood easily.²⁵ Hirsch points out:

These (social indicators) comprise a hybrid collection of indicators of various facets of economic and social well being - for example health is indicated by mortality rates (rather than money spent on doctors and hospitals); contentment and safety as indicated by the inverse of suicide and accident rates (as distinct from spending on prevention services and safety devices); air quality as indicated by pollution content (as distinct from spending on anti-pollution devices).²⁵

To follow the establishment of the negative effects of growth and the social indicators of current performance could be to erect a firm foundation of goals or values which society should pursue in order to re-establish viable neighbourhood, community and city social fabric and economic development and then, from this foundation, the correct economic strategy through which to realize these goals. This is the purpose of a social-economics and an emphasis on economic development rather than growth.

Dunn has classified the two development models that function as learning systems:

type a - a learning system that has the capacity to be reprogramed in its behavior

type b - a learning system that has the capacity to reprogram itself.²⁷

Type a learning is closer to the growth or mechanistic model since it is also deterministic in the sense that the final state of the system is predetermined. I place within this category Jane Jacobs' economic development model delineated in The Economy of Cities with its stages of development concept. An urban economic development model that embodies type b learning, i.e. an open system of creative learning with the capacity to reprogram itself,²⁸ can be found, in my opinion, in the economic development system of David Morris and the Institute for Local Self-Reliance. Morris' economic development strategy, targeted to the neighbourhood, community, and city, contains a complete system with carefully defined aims, goals, concepts, philosophy, strategy, tactics, performance indicators, and social values. The following sections contain detailed accounts of both Jacobs' and Morris' urban economic development models.

Summary: Maturation of Theory Into Strategy

The theoretical portion of this thesis invites two levels of reading. On one level it is a dialectic inquiry, comparing and contrasting growth theories to development theories in order, through the interaction between the two approaches, to reach conclusions as to a synthesis of approaches, techniques, and tactics that make up a successful development strategy. These conclusions are to be applied, in the next portion of the thesis, to a case study of economic development in Winnipeg. The application of the theory, in the form of a distillation of the best parts of different approaches, to the practical situation is meant to suggest one economic development strategy that Winnipeg could pursue in order to achieve economic improvement.

On the other level, the theoretical portion is a chronological exposition of the maturation of theory. By tracing an increasing sophistication in the thought of different theorists we are able to follow the development of ideas from a simple observation and explanation approach to a co-ordinated economic development strategy and, finally, to a comprehensive development approach cognizant of social evolution and ecological factors. The transition from a causal theory to interventionist strategies is found in the examination of Hans Blumenfeld's contribution to the theory. Blumenfeld questioned theoretical precepts and indicated the future course of alternate development strategies. Blumenfeld is at the fulcrum of the shift from explanatory to normative theory.

The chronological exposition is the clearer method of classification of the material for the reader. The remainder of the theoretical portion

of the thesis is made up of five chapters, one each on economic base theory, Hans Blumenfeld, Jane Jacobs, and the Institute for Local Self-Reliance, and a chapter of theoretical conclusions. In the chapters that follow, it will become evident that this method allows for a full exposition of each theorist or body of theory; yet, in order to summarize and make recommendations, a chronological exposition is not enough. That would be to conclude that the most mature, or most comprehensive, would be "the best" since it includes the concerns of its predecessors as well as a more complete world view. This exact strategy may not be the most appropriate for Winnipeg. This also implies abandoning what is best in economic base theory, which is not desirable because some of the techniques are extremely useful.

A dialectic inquiry, which emphasizes the interaction between the explanatory and normative approaches, resolves this problem and allows for the best points of all theories. The reader is directed to the re-occurant themes, such as the multiplier or input-output analysis, that are picked up each time they are found in later theorists and show how earlier ideas are treated by other theorists. It is upon this interaction of different ideas that the summary and recommendations of chapter seven are based.

Footnotes

1. Bullock, A. & Stallybrass, O. The Fontana Dictionary of Modern Thought, p. 188.
2. Dunn, E. Jr. Economic and Social Development, p. 8 & 9.
3. Conroy, Michael E. The Challenge of Urban Economic Development, p. 1.
4. Hirsch, F. Social Limits to Growth, p. 15.
5. *ibid.*, p. 7.
6. Henderson, H. Creating Alternative Futures, p. 39 - 83.
7. Dunn, E. Jr. *ibid.*, p. 9.
8. The Penguin Dictionary of Economics, p. 130.
9. Dalton G. Economic Systems and Society, p. 199.
10. Conroy, Michael E. *ibid.*, p. 1.
11. Dunn, E. Jr. *ibid.*, p. 19.
12. *ibid.*, p. 21.
13. Hirsch, F. *ibid.*, p. 16.
14. *ibid.*, p. 8.
15. *ibid.*, p. 18.
16. van Duijn, J. J. The Long Wave in Economic Life, p. 5.
17. Henderson, H. *ibid.*, p. 12.
18. Hirsch, F. *ibid.*, p. 175.
19. Conroy, Michael E. *ibid.*, p. 3 & 4.
20. *ibid.*, 3 & 4.
21. Jacobs, J. The Economy of Cities, p. 162.
22. Dunn, E. Jr. *ibid.*, p. 25.
23. Theobald, R. Avoiding 1984, p. 69.
24. Henderson, H. *ibid.*, p. 21 & 22.
25. Hirsch, F. *ibid.*, p. 8.

26. Ibid., p. 63.

27. Dunn, E. Jr. *ibid.*, p. 21.

28. Ibid., p. 30.

Chapter 3: Economic Base Theory

Introduction to Economic Base Theory

Economic base theory, first suggested by Fredrick Law Olmstead¹ in 1921 was expounded fully by Homer Hoyt in the 1930's. Working as an economist in the Federal Housing Administration in Washington, Hoyt needed a simple model of urban economic performance in order to assess the economic prospects of a multitude of cities.²

Following Hoyt, urban economists and geographers espoused the theory as a convention or agreed-upon method of analysis. Not until Hans Blumenfeld's criticism in 1955 was the theory significantly questioned. At the present time the theory continues to be used for the analytic framework for urban economic investigation.

The merit of economic base theory lies in its simplicity, coherence, and predictive capability. Disadvantages are an undue emphasis on growth and the static nature of the theory.

The Theory

Economic base theory, alternately entitled export-base by Hirsch or basic/non-basic theory by Heilbrun, is understood as a framework by Hirsch, a model by Chorley and Haggett, a concept by Yeates and Garner, or an approach by Conroy as well as a theory.³ The fundamental precept of economic base theory is that the growth of a settlement region depends on the goods and services it produces but sells beyond its borders. The more goods and services a settlement can produce and sell beyond the environs of the city, the more income it will earn, and the more settlement growth will be generated.⁴

It follows that urban economic activity can be divided into two categories:

1. basic or export or city-forming or exogenous referring to industries income or workers and
2. non-basic or service or endogenous industries (income or workers)

whereby:

"The exogenous and endogenous sectors are distinguished spatially in terms of the location of their demand areas. Export activities obviously supply goods and services to points outside the confines of the urban area or to persons coming to that urban area from outside, whilst service activities satisfy a market entirely within the urban area. The level of economic activity within an urban area is the sum of the levels of activity in these two sectors."⁵

Expressed as a simply equality, the relationship, according to economic base theory is:

Total activity in the settlement = Total activity in basic industries + Total activity in non-basic industries

or symbolically as:

(TA) = (BA) + (NBA)

This equality can be expressed in income terms as:

Total income in the settlement = Total income derived from basic industries + Total income from non-basic industries⁶

These two proportions can be expressed as a ratio, termed the basic/non-basic ratio. For example:

"...if half the income comes from non-basic activities and the other half comes from basic activity, the ratio can be written 1:1. Alternatively if a quarter of the settlement income comes from basic activities, then three-quarters of the income will come from non-basic activities; and the ratio is written 1:3. The convention is for the basic side of the ratio to come first and to be represented as unity."⁷

Expressed schematically, the relationship between basic and non-basic activities, within the context of the city boundary, resembles:

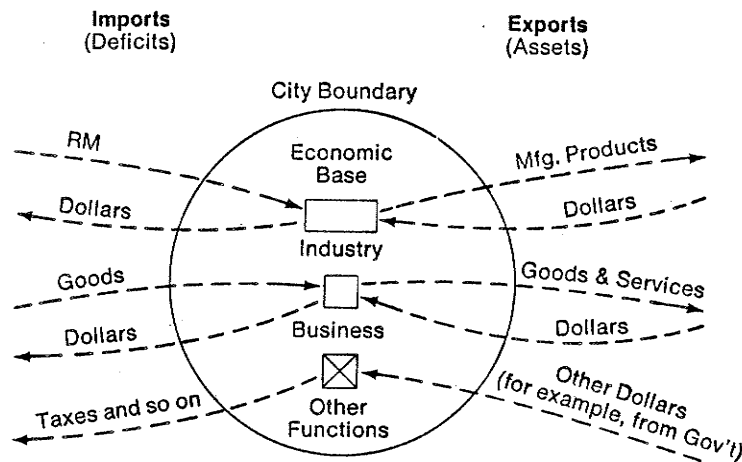


Figure 2: Relationship between basic and non-basic activities⁸

Techniques of Quantifying Economic Base

In moving from a concept or framework to a model, economic base must be quantified. Two techniques by which economic base theory is used for empirical prediction are the multiplier and location quotient.

The Multiplier

The multiplier is defined as the ratio between the total income ultimately created and the initial expenditure to which it is attributable⁹ or, alternately, as the measurement of the relationship between an autonomous injection of expenditure into an economy and the resultant changes in income which occur.¹⁰ The concept of the multiplier explains an often-misunderstood phenomenon, the creation of additional value from a finite quantity. This phenomenon is not unique to the urban economic system and has been used for centuries by the banks whereby banks make loans against initial deposits thereby reproducing the original amount of money and then use the payments on the loans and the new deposits, in the form of

the initial loans which are rarely withdrawn, to provide further revenue on which to base loans.¹¹ Galbraith describes this phenomenon as "the miracle of money creation by a bank".¹²

In order to understand how the multiplier effect works it is first important to understand the circular flow of money within the social system:

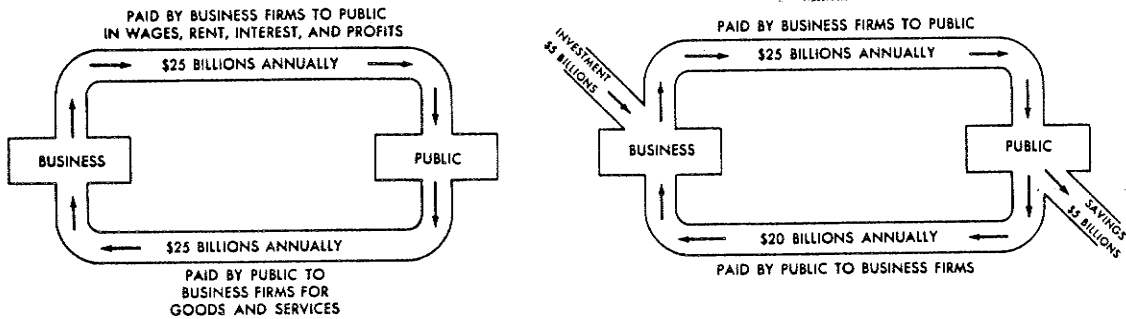


Figure 3a: the circular flow

Figure 3b: the circular flow with inputs and outputs¹³

In each round within the circular flow, as money changes hands between business (or government) and the public, the original amount is reproduced by virtue of a new round of transactions. If no new money entered or left the flow, then the value would double with each round (see Figure 1). Money is constantly being withdrawn from the system (see Figure 2) so that the amount is not absolutely doubled. Instead the second, third, and so on series of transactions are a percentage of the original amount. This percentage is called the marginal propensity to consume or MPC.¹⁴ Adding up all the rounds of money within the circular flow produces a sum which, when compared to the original amount, yields the ratio which is the multiplier.

Money that leaves the circular flow is called a leakage. Without leakages money could simply recirculate throughout the economic system endlessly reproducing the initial value with each cycle. Leakages include every portion of the increase in income which is not spent on homemade consumption goods.¹⁵ This includes payments for imports, taxes, gifts, and loans¹⁶ as well as savings, financial transactions, and flexible prices.¹⁷

The mathematical formula most often used to calculate the urban economic (or local or community) multiplier is given by Yeates and Garner to be:

$$m = \frac{1}{1 - \frac{NBA}{TA}} \quad \text{or } m = \frac{TA}{BA} \quad \text{or } m = 1 + \frac{NBA}{BA}$$

where TA = total economic activity

BA = basic activity

NBA = non-basic activity

m = is the multiplier¹⁸

This formulation is deceptively simple since the actual calculations vary with the definition of what percentage basic and non-basic activities make up of total activity. Wallace Smith shows how three different methods of defining the basic/non-basic ratio, the whole industry method, the value-added method, and the minimum requirements method, produce three different calculations of the multiplier:¹⁹

Industry category	Employment (000)	Whole industry method	Value added method		Minimum requirements method	
		Number of export jobs	Percent export	Number	Minimum number	Excess jobs
Construction	5		20	1	5	0
Manufacturing	29	29	90	26	2	27
Transportation	10		50	5	3	7
Wholesale	8	8	75	6	1	7
Retail	12		25	3	12	0
Finance	5		40	2	2	3
Service	13		10	1	10	3
Federal government	6	6	83	5	0	6
Local government	12		0	0	12	0
Total	100	43		49		53
Economic base multiplier (1/% export jobs)		2.33		2.04		1.89

Figure 4: alternative methods of computing the economic base multiplier for a hypothetical city²⁰

The whole industry method, the most simple, assumes all employment in a particular category is counted as export. The value-added method, often called the ideal method, involves a survey of all the community's business forms to find out how much of the value added (the difference between the selling price of their products and the amounts paid to other firms or governments) was generated by export sales. The minimum requirements methods assumes a basic/non-basic ratio for the whole economic system and applies that ratio to individual industries.²¹ The value-added method produces the intermediate range of multiplier which is also closest to actual but is hampered by the necessity for an excessive amount of data.

The two other main types or families of multipliers, other than the local or community multiplier, are:

1. domestic multiplier
2. foreign trade multiplier.

Referred to as the Robertsonian and Keynesian multipliers after the economists who pioneered the concepts,²² these two relate to national

income formation and business cycles.²³ Although of different families, the local and the Keynesian multipliers share broad similarities. The Keynesian multiplier is formulated as follows:²⁴

$$K = \frac{1}{1 - \text{mpc}_l}$$

where mpc_l = the marginal propensity to consume locally produced goods

and mpc_l is defined as equally the marginal propensity to consume minus the marginal propensity to import.²⁵ Since in export base theory

$$m = \frac{1}{\frac{1 - (\text{NMA})}{\text{TA}}} \quad 26$$

there is a direct analogy between $\frac{\text{NBA}}{\text{TA}}$ and the Keynesian mpc_l , and the two multipliers are essentially the same.²⁷ This similarity stands as a confirmation of the local multiplier technique since the highly-respected Keynesian multiplier, arrived at by an entirely different method, comes to a similar conclusion.

A fourth type or family of multipliers are the matrix multipliers developed from input-output analysis and from the original Keynesian models.²⁸ The matrix multiplier is actually a series of multipliers measuring interindustry impact. The horizontal axis of the matrix represents the buying sectors while the vertical axis represents the selling sectors.²⁹

$$M = \begin{bmatrix} m_{11} & m_{12} & m_{13} & m_{14} \\ m_{21} & m_{22} & m_{23} & m_{24} \\ m_{31} & m_{32} & m_{33} & m_{34} \\ m_{41} & m_{42} & m_{43} & m_{44} \end{bmatrix}$$

$M_1 \quad M_2 \quad M_3 \quad M_4$

All matrix multipliers are considerably reduced in practical value because of the labourious work necessary in their calculation which require an entire research staff, elaborate calculating machinery and reliable and extensive statistical data.³¹

Hegeland outlines an elaborate breakdown of multiplier types and sub-types. There are two main types of multipliers, static and dynamic (referred to synonymously as ex posto and ex ante), which apply to the element of time over which the multiplier is to be measured.³² Dynamic, or process, multipliers are further sub-divided into simple dynamic,³³ instantaneous,³⁴ equilibrium,³⁵ and truncated³⁶ multipliers, the latter measuring a limited length of time. Truncated multipliers are further sub-divided into truncated cumulated, truncated horizontal, and truncated integrated multipliers,³⁷ each measuring change of different time variables.

Other types of multipliers measure different variables such as investment multipliers, consumption multipliers, wage multipliers, and a special group called spending multipliers which includes government spending multipliers, private spending multipliers, deficit spending multipliers,³⁸ and total spending multipliers.³⁹ Another classification of multipliers refers to the type of multiplicand to which the multiplier is applied. Upward multipliers apply to positive multiplicands while downward multipliers apply to negative multiplicands.⁴⁰ One type of multiplier which measures the ratio between growth and aggregate income and the growth of aggregated autonomous investment has been given the unique title of super-multiplier.⁴¹

This list is by no means exhaustive. Multipliers vary with the size of the community, the degree of economic maturity, the income and

consumption pattern, distances to neighbouring cities, the rate of growth, and the qualitative make up of the community.⁴² There exists a vast array of multipliers able to calculate the income effects of all types of variables within differing economic and geographic situations.

The concept that the multiplier is based on is solid, specifically in that it demystifies the often misunderstood phenomenon of the effects of income circulation within an economic system. This is the principal value of the multiplier model, its concept. Attempts at precise quantification vary and no consensus can be reached as to an exact method or model. Qualitatively, there are significant spin-off effects of an influx of income into an economic community and it is beneficial to attempt to maximize these effects.

Location Quotient

Location quotient is a statistical device which measures in terms of employment, the degree of concentration of a given industry in a given place. It is defined as the percentage of local employment accounted for by a given industry divided by the percentage of national employment in that industry.⁴³ Location quotient expressed as a formula is:

$$\frac{\frac{ER_j}{ER}}{\frac{EN_j}{EN}} \rightleftharpoons 1 \quad 44$$

where: ER_j = regional employment in industry j

ER = total regional employment

EN_j = national employment in industry j

EN = total national employment

It follows that when the location quotient for a particular industry is unity, local production can just satisfy local consumption; when the location quotient exceeds unity, the city will be exporting; and when it falls short of unity, importing.⁴⁵ Expressed otherwise:

"If the location quotient exceeds one, the city produces a surplus destined for the export market. A value equal to one implies self-sufficiency, and a value less than one indicates a local deficit and the need for imports. Thus, any industry whose location quotient exceeds one is part of the economic base while the remainder are regulated to the non-basic category."⁴⁶

The location quotient also provides a technique of calculating the amount of employment devoted to export production in a given industry. The equation is as follows:

$$x_i = \frac{(l_i - E_i)}{e} \cdot e$$

where x_i = export employment in the i th industry⁴⁷

Location quotient is especially useful in that it relates the local economy to the national economy and it provides a shorthand method of separating export employment from employment for local service in a given industry.

Complexities in Economic Basic Theory

As is obvious from the above discussion, economic base theory is straight forward in conception because of the clear dichotomy between basic and non-basic activities. Possibly this conceptual simplicity can explain the theory's overwhelming acceptance by urban economists and urban geographers. Unfortunately, maintenance of simplicity can restrict the utility of the concept. Dunn identifies two methods by which the theory may be given additional systematic complexity:

1. combination with the allometric growth model to take into account the way in which the effect of growth of the export base and its associated aggregate growth is reflected in the social changes of the subsystem activities within the region or nation.
2. linking the concept with an open-minded form of the input-output model or the classical general equilibrium model to specify the endogenous subsystem adaptations that must accompany a change in the external requirements for subsystem outputs.⁴⁸

Both forms of analysis, i.e. linking economic base theory to the allometric growth model and to the input-output model, successfully add complexity and enhance the explanatory power of the primary model. However, it should be noted that both systems are outgrowths of the initial concepts so that, although it may be a more satisfactory analytic tool, the augmented model will demonstrate the same strengths and weaknesses as found in the original.

Complexity, on the other hand, may not be a desirable goal. A basic advantage of the theory is its simplicity. Heilbrun notes three areas in which the simplicity of the theory is useful to analysts

1. instead of having to predict changes in every industry, the analyst need concern himself only with export grades
2. the method makes use of the most easily available data, those on employment
3. it requires information only about the volume of local and export activity; imports and capital flows are ignored.⁴⁹

Although efforts to add complexity to a theory of which the primary virtue lies in its simplicity may serve only to confuse the issue, the development of input-output analysis adds significant depth to the initial premise. Allometric growth models, on the other hand, are simple

growth models based on the allometric principle which states that: "a change in the scale of the total system implies associated changes in the scale of the subsystems".⁵⁰ The principle has been implied in the recent work of urban economists and central place theorists. Their conclusion is that, as an urban region grows in size, the size and mix of these central place activities will change in a deterministic fashion. Predictions of change in urban size provide a basis for urban planning through application of the empirically established dimensions of the allometric principle.⁵¹ More significant to economic base theory is the outgrowth of input-output analysis, which warrants a separate discussion.

Input-Output Analysis

The input-output model, developed by Wassily Leontief, is an outgrowth of the broad spectrum of economic base theory.⁵² Although the analysis can be quite complex, the analytic framework for input-output analysis is based on a simple accounting identity that can be stated as follows: for each sector or industry the sum of all outputs (sold to other sectors of industries) must equal the sum of all inputs (purchased from other sectors of industries), provided care is taken not to omit any transactions.⁵³ The technique is unique in that it incorporates the real world of money flows.⁵⁴ Input coefficients are calculated in the model not in physical units, as in kilowatts per ton, but in cents worth of input per dollar in output.⁵⁵

Although economic base theory indicated the advantages of sectoralization of the urban economy as means to understanding its functioning,⁵⁶ input-output analysis refines this approach so that, through this technique, the analyst is able to trace the way in which any given change in

sectorial economic activity will work its way through the economic system as a whole.⁵⁷ The technique lends itself to impact analysis, i.e. tracing the effects of change on the various sectors of the urban economy.⁵⁸ In fact, it is possible to incorporate the environmental impacts of industry into the model in order to gauge the economic-ecological interrelationships.⁵⁹ The model is quite comprehensive and stresses the interrelatedness of the sectors of an urban economy.

In order to construct an input-output table, the first step is to decide on an appropriate sectoring frame in which to group the region's many business firms and other producers of the region's output.⁶⁰ Next, a table is constructed in which these sectors are arranged in the same order horizontally and vertically. Reading horizontally the table shows how the output of every sector or urban activity is distributed, i.e. what other sectors are clients of the initial sector, with the final entry in the row representing the gross output of that sector.⁶¹ Industries or sectors are divided into two groups, the final demand sector and the processing sector.⁶² This division distinguishes between the exogenous sectors which autonomously determine the level of activity (the final demand sector) and the endogenous sectors (the processing sector) whose level of activity is then delineated by the model.⁶³ The main operational task is to estimate the multipliers which indicate how much of a change in each industrial and commercial sector will result for an overall change in demand due to changes in consumption, export, and investment.⁶⁴ The resultant input-output table from this procedure is as follows:⁶⁵

Purchases by Sales by	Intermediate users						Final demand					
							Consumption		Investment (I)	Exports (E)	Imports (M)	Total output
							Private (C)	Government (G)				
		1	2	3	j	n						
PROCESSING	1	X_{11}	X_{12}	X_{13}	X_{1j}	X_{1n}	X_{1c}	X_{1g}	X_{1I}	X_{1E}	X_{1M}	X_1
	2	X_{21}	X_{22}	X_{23}	X_{2j}	X_{2n}	X_{2c}	X_{2g}	X_{2I}	X_{2E}	X_{2M}	X_2
	3	X_{31}	X_{32}	X_{33}	X_{3j}	X_{3n}	X_{3c}	X_{3g}	X_{3I}	X_{3E}	X_{3M}	X_3
	i	X_{i1}	X_{i2}	X_{i3}	X_{ij}	X_{in}	X_{ic}	X_{ig}	X_{iI}	X_{iE}	X_{iM}	X_i
	n	X_{n1}	X_{n2}	X_{n3}	X_{nj}	X_{nn}	X_{nc}	X_{ng}	X_{nI}	X_{nE}	X_{nM}	X_n
PAYMENTS	Wages	W_1	W_2	W_3	W_j	W_n	W_c	W_g				W
	Rent	R_1	R_2	R_3	R_j	R_n	R_c	R_g				R
	Interest	D_1	D_2	D_3	D_j	D_n	D_c	D_g				D
	Profits	P_1	P_2	P_3	P_j	P_n	P_c	P_g				P
	Total output	X_1	X_2	X_3	X_j	X_n	C	G	I	E	M	

Figure 5: input-output table

In practice, many analysts avoid the laborious survey technique and, instead, use a shortcut whereby a national accounts table is adjusted to reflect the industrial composition of a specific region.⁶⁶

Problems with input-output analysis rest in the static nature of the model⁶⁷ although comparison of models constructed several years apart will point out the impact of change.⁶⁸ The substantial data requirements represent the most serious drawback and inevitably the limited data that can currently be used in the model will be several years out of date.⁶⁹ These problems notwithstanding, the input-output technique has much to recommend it. Along with the ecological component, the model stresses the interrelatedness of the comprehensive urban economy and provides a clear mathematical representation of the importing and exporting sectors.

Merit of Economic Base Theory

Yeates and Garner identify three advantages of the basic/non-basic concept. These are:

1. The concept brings into sharper focus the economic ties of a city or region to other areas.
2. The concept makes possible a more satisfactory classification of cities in terms of regional functions. Certain basic activities express a city's service to a surrounding region; by reference to these activities a city can be classified better in terms of economic specialization.
3. The concept provides a new and important method of classifying individual business. For example, two firms may be engaged in manufacturing but because of the location of their markets, one could be basic and the other service.⁷⁰

Yeates and Garner point out the theory's capacity to classify and identify key functions of a conceptual model. The other advantage of the theory is its predictive capacity. Boyce outlines the two predictive functions of the theory in his statement:

"The economic base concept can be used to provide estimates as to the amount and type of new land that might be added to the city, given a basic activity input. Just as basic employees act as a service employee multiplier, they also act as catalysts for new urban land uses."⁷¹

Economic base analysis can be used to forecast three functions: land use, population, and employment.

The strength of economic base theory lies in the theory's proficiency in classifying, identifying, and predicting.

Weaknesses of Economic Base Theory

Much of the criticism levied at economic base theory concerns the assumptions underlying the theory. Hirsch states that:

"The assumptions implicit in the export base framework are quite unrealistic, so that it conveys very little about the behaviour of decision units or the economic processes within the urban economy. At best, the framework permits the approximation of levels of economic activity over the short run, during which the distribution of income, the industry mix, and the production techniques used in the urban area are not subject to substantial change".⁷²

Conroy lists these assumptions; assumptions deemed unrealistic by Hirsch:

1. income and employment in a city are not changed by influence other than changes in the level of exports
2. the amount of income spent for local products is stable over a wide range of income change and relatively long periods
3. the amount of income generated locally by each dollar spent locally is also unchanging
4. there are no changes in any of the prices of inputs or products that determined the magnitude of the multiplier at the time it was calculated
5. that all the additional labor and capital required to expand production will be available immediately and without an increase in wages or rates or profits.⁷³

These assumptions reveal the static nature of economic base theory. Hirsch notes the short run as opposed to the long run applicability of the theory. Conroy notes lack of change, stability, limitations of time frame, and immediate availability assumed by the theory.

Both the strengths and the weaknesses of economic base theory derive from the static nature of the theory. It can be employed at only one period in time and applications at another time period would yield different data.

The other major criticism of the theory also deals with the element of time. This is the focus on growth that dominates the theory. Quality rather than quantity could be emphasized. Boyce states that "Many geographers feel that far too much importance has been attached to growth. True, a new basic activity may make a city grow in population, but it may not necessarily make a city a better place in which to live".⁷⁴

Economist Edgar Dunn offers an alternative to the issue of growth in his statement:

"This metaphor (economic base) has run into difficulty, of course, because it focuses upon growth rather than development - with the scale and proportion of factor inputs rather than innovative changes in modes of behaviour. It is still concerned with the displacement of the implacable margin rather than the transformation of its character. Accordingly, in time the economic literature came to adopt the metaphor of a system open to information exchange."⁷⁵

Dunn identifies and relates both principal defects, the static structure of the theory and its stress on quantitative growth. He advises an alternative emphasis on transformation and an open systems approach. An alternative theory would be dynamic and open, dealing with the process of economic change rather than projection of a current situation.

Not until Hans Blumenfeld's 1955 criticism of the economic base theory was the groundwork for an alternative theory put in place.

Footnotes

1. Blumenfeld, Hans. "The Economic Base of the Metropolis", The Modern Metropolis, p. 333.
2. Heilbrun, James. Urban Economics and Public Policy, p. 139.
3. The Merriam-Webster Dictionary, 1974 defines these terms as:
theory - a general principle offered to explain observed facts (p. 708)
framework - a basic structure of ideas (p. 288)
concept - thought, notion, or idea (p. 157)
approach - a move nearer to or preliminary steps toward (p. 50)
model - a structural design or miniature representation (p. 450).

Heilbrun states that economic base is a theory rather than a method
"precisely because it does postulate a particular causal relationship
between the variables it deals with". Urban Economics and Public
Policy, p. 138.
4. Yeates, M. & Garner, B. J. The North American City, p. 119.
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7. Ibid., p. 120.
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11. Galbraith, J. K. Money: Whence It Came, Where It Went, p. 23 - 34.
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13. Bellan, R. C., op. cit., p. 431.
14. Ibid., p. 438.
15. Hegeland, H. The Multiplier Theory, p. 143.
16. Harmston, F. K. The Community as an Economic System, p. 49.
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19. Smith, W. F. Urban Development: The Process and Problems, p. 91.
20. Ibid.
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25. Ibid.
26. Yeates, M. H. & Garner, B. J. op.cit., p. 120.
27. Heilbrun, J., op.cit., p. 149.
28. Archer, B., op.cit., p. 14.
29. see Harmston, F.K., op.cit., p. 43 - 47.
30. Ibid., p. 46.
31. Hegeland, H., op.cit., p. 182.
32. Ibid., p. 153.
33. Ibid., p. 154.
34. Ibid., p. 157.
35. Ibid., p. 161.
36. Ibid., p. 162.
37. Ibid.
38. Ibid., p. 166.
39. Ibid., p. 169.
40. Ibid., p. 170.
41. Ibid., p. 161.
42. Palmer, E. Z. et.al., op.cit., p. 32.
43. Heilbrun, J. op.cit., p. 141 - 142.
44. Krueckeberg, D. A. and Silvers, A.L. Urban Planning Analysis: Methods and Models, p. 397.
45. Heilbrun, J., op.cit., p. 141- 142.
46. Watkins, A. J. The Practice of Urban Economics, p. 116.
47. Heilbrun, J., op.cit., p. 142.

48. Dunn, E. Jr. Economic and Social Development, p. 17.
49. Heilbrun, J., op.cit., p. 140.
50. Dunn, E. Jr., op.cit., p. 14.
51. Ibid., p. 15.
52. Harmston, F. K., op.cit., p. 289.
53. Heilbrun, J., op.cit., p. 154.
54. Yeates, M.H. & Garner, B.J., op.cit., p. 130.
55. Heilbrun, J., op.cit., p. 154.
56. Goodall, B., op.cit., p. 250.
57. Bracken, Ian. Urban Planning Methods, p. 188.
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60. Krueckeberg, D.A. & Silvers, A.L., op.cit., p. 407.
61. Goodall, B., op.cit., p. 250 & 252.
62. Heilbrun, J., op.cit., p. 1557.
63. Ibid., p. 158.
64. Bracken, I., op.cit., p. 188.
65. Thirlwall, A.P., Growth and Development, p. 191.
66. Krueckeberg, D.A. & Silvers, A.L., op.cit., p. 408.
67. Heilbrun, J., op.cit., p. 164.
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73. Conroy, Michael E. The Challenge of Urban Economic Development, p. 43.

74. Boyce, Ronald R. The Bases of Economic Geography.
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Chapter 4: Hans Blumenfeld's Criticisms of Economic Base Theory

Introduction to Blumenfeld

Characterized by Goodall as a "champion of the service sector"¹, Hans Blumenfeld undertook a methodical critique of the economic base concept in his 1955 article "The Economic Base of the Metropolis: Critical Remarks on the Basic-Non-Basic Concept". Instead of pinpointing weaknesses in the concept and advancing additional techniques to offset these weaknesses, Blumenfeld attacked the initial theoretical premise and, using new postulates, concluded that the service industries are basic and primary to the urban economy while the export industries are secondary and ancillary.² This diametrically opposed position mounted a challenge to urban planners.

Blumenfeld did not offer an alternative economic theory; his stance is simply a reversal of the initial stance and his argument is couched in the same jargon as its predecessors. What he does put forward is a concise delineation of the biases and weaknesses of the economic base theory and a foundation for a shift in emphasis from explanatory theory to strategical approaches.

Biases of Economic Base Theory

The dual bias of economic base theory is, first, mercantilistic bias favoring money-earning rather than consumption-satisfying activities, and second, physiocratic bias in favor of food and raw materials as opposed to manufactured goods and services.³ The mercantilist school of economics regarded only gold and silver as true wealth. In economic base theory this mercantilistic bias emerges in the assumption that the acquisition of money is the basic purpose of the urban economy. The result is a lopsided

view of the role of basic and non-basic activities in the balance of payments with exterior economies. Speaking about economic base studies dominated by this concept. Blumenfeld states: "no attempt is being made in these studies to differentiate between those locally consumed goods and services which are produced locally and those for which payments have to be made to the outside world".⁴ In effect, money is not a means to purchase imports but an end in itself.

Physiocracy, the doctrine which succeeded mercantilism, believed that precious metals were a false standard of wealth and that land and its unmanufactured products were the only true wealth. Many economic base studies stress the necessity of earning money to pay for imports considered basic necessities such as food and raw materials. Blumenfeld asserts that "we are dealing exclusively with a difference in the market: the appropriate terms would be 'export' and 'home market' activities".⁵

The difference is a matter of "critical" defined as the vulnerability of an activity to outside competition as well as the ability to penetrate into outside markets. Some activities, by the nature of their product, have to compete with outside producers regardless of the location of their sales while others do not have to compete because of locational advantages. This observation leads Blumenfeld to conclude: "it is just as important to measure the imported and the locally produced share of total local consumption as it is to measure the exported and the locally consumed shares of total production".⁶

Blumenfeld's Analysis of Weaknesses

Weaknesses that Blumenfeld sees in economic base theory include:

1. "The method neglects the import side of the ledger, which is equally as important as the export side."⁷
2. "The method⁸ is unable to solve the problem of 'indirect primary' activities.⁸ 'Indirect primary' refers to all goods or services sold to a local establishment which in turn exports its products."⁹
3. "The method fails to integrate into its conceptual scheme any payments received or made other than those for work performed."¹⁰
4. "The 'multiplier' is not a useful tool for prediction in a metropolitan area" because "the 'multiplier' varies not only with the 'ratio' but also with the 'family coefficient' of both the 'basic' and 'non-basic' employed and with the percentage of the population that is not employed."¹¹

and finally

5. The method does not give adequate recognition to the fact that "A large metropolitan area exists, survives, and grows because its business and consumer services enable it to substitute new 'export' industries for any that decline as a result of the incessant vicissitudes of economic life."¹²

Observations About Economic Base Theory

Blumenfeld makes four observations about the limitations of the basic/non-basic concept. First he notes that, as the size of the community increases, the applicability of the economic base concept lessens.¹³ Second, as the specialization and division of labour between communities increases, so does the applicability of the economic base concept increase.¹⁴ Third, the economic base concept becomes less applicable with the greater amount of income derived from sources other than payment for work performed, i.e. unearned income, entering the local economy.¹⁵ Fourth, the basic/non-basic ratio is lowest in large, mature communities and highest in small, new communities.¹⁶

Directions for an Alternative

Out of his analysis of the biases and weaknesses of the basic/non-basic method, Blumenfeld recommends four principles that should inform

the search for an alternative approach. The four recommendations are: different studies needed to replace economic base studies; recognition of value added; replacement of imports with locally produced goods and services; and a new metaphor of the city.

The two types of studies of the urban economy that Blumenfeld advocates as alternative options to economic base studies are:

1. A "critically" or "variability" study analyzing all actual and potential branches of production in the area from the point of view of the size and character of the area in which they compete, and their subsequent vulnerability to outside competition as well as their potential to expand into external markets.
2. A "balance of payments" study which includes all types of payments, giving equal weight to both sides of the ledger.¹⁷

Although these studies are related and would use much of the same material they could differ in their conceptual framework.

In surveying the economy, Blumenfeld thinks that a major aspect is omitted from production calculations. Answering the question, How does the community earn the money to pay for the imports it needs? Blumenfeld concludes:

"If we leave aside, for the time being, the question of modifying the need for imports as well as the possibility of paying for them by money derived from sources other than export, the main shortcoming is this: we know the gross value of the exported goods and services. What we want to know is the 'value added' by the community."¹⁸

Here Blumenfeld gives recognition to the social element of production: the labour, initiative, and innovation provided by individuals rather than capital and raw materials which are readily calculated.

Another area of economic development overlooked in traditional economic base analysis is the potential for replacement of imports by

local production. Blumenfeld, the first to emphasize this aspect, states:

"However, it remains possible to substitute local production for imports, especially where the growth of the community creates a previously nonexistent large market, imports may be replaced by locally produced goods and services. In this way growth induces further growth".¹⁹

Blumenfeld demonstrates that the import replacement process is a strategy by which renewed growth follows initial growth. Growth is conceptualized as a process rather than a static mechanism of generating new exports.

The last recommendation issuing from Blumenfeld's analysis is a new metaphor for the city. Recognizing two conflicting objectives of the American planning profession - that of strengthening the economic base as opposed to the goal of a self-contained community - Blumenfeld notes:

"In a completely self-contained, or autarchic, community, nothing has to be bought from the outside, and consequently nobody works to earn money for outside payments. There is no 'basic' employment: in fact people live by 'taking in each other's washing'".²⁰

To illuminate he draws attention to an article, published in 1938, titled "Oskaloosa versus the United States" in which a city of 10,000 was treated as if it were a little nation.²¹ This renewal of the Greek city-state concept contains implications more far reaching than simply providing a basic focus for balance of payments studies. As we shall subsequently discover, this metaphor can provide the foundation for the development of a theory of self-reliant cities.

Summary

From examination of economic base theory, Blumenfeld determines that the relationship between the major elements of the urban economy as identified by this theory is the reverse of the actual situation. The service sector is constant and permanent, hence the truly basic and

primary element of the economy while the ever-changing export industries are the ancillary and secondary elements.²² The most significant of his recommendations are: import replacement as a growth inducing and renewing process and the metaphor of the city as a tiny nation.

The following chapters on Jane Jacobs and the Institute for Local Self-Reliance will demonstrate that these two recommendations are found as basic concepts in alternate theories which emphasize intervention strategies.

Footnotes

1. Goodall, B. The Economics of Urban Areas, p. 244.
2. Blumenfeld, Hans. "The Economic Base of the Metropolis" The Modern Metropolis, p. 368.
3. Ibid., p. 331.
4. Ibid., p. 340.
5. Ibid., p. 341.
6. Ibid., p. 342.
7. Ibid., p. 332.
8. Ibid., p. 332.
9. Ibid., p. 346.
10. Ibid., p. 332.
11. Ibid., p. 332.
12. Ibid., p. 332 & 333.
13. Ibid., p. 338.
14. Ibid., p. 338.
15. Ibid., p. 339.
16. Ibid., p. 340.
17. Ibid., p. 349.
18. Ibid., p. 345.
19. Ibid., p. 350.
20. Ibid., p. 337.
21. Ibid., p. 348, in Fortune Magazine, April 1938.
22. Ibid., p. 333.

Chapter 5: Jane Jacobs' Economy of Cities

The Urban Crisis

In The Death and Life of Great American Cities, Jane Jacobs treats urban decay as a constant, not to be disputed even if empirical evidence is lacking. As a solution she promotes an essentially anarchistic approach to planning practice using the model of Greenwich Village as the ideal urban environment.¹ In The Economy of Cities she is more specific about urban problems, as an example, when she states "practical problems that persist and accumulate in cities are symptoms of arrested development".² Using a medical metaphor she approaches urban problems as a doctor would treat a patient citing visible problems as the symptoms. The disease is arrested development and the surest symptom of arrested development is a stagnating economy. As her prescription is to stimulate the urban economy the book is devoted to showing how to do this. An overall theme is the service sector as the basic component of a mature, thriving metropolis. This prescription led one reviewer to comment that she "thinks that solving the so-called urban crisis ought to be, and can be, America's chief growth industry".³ "Solving the so-called urban crisis" translates as stimulating the service sector of the urban economy.

To sum up, Jacobs thinks that economic problems are the source of all urban problems, that the solution to economic problems lies in reviving the service sector economy, that this will, in turn, re-generate the entire system, producing spin-off effects which will revive the whole American economic system.

Jacobs' perception of the condition of the economy was remarkably prescient. Peter Schrag, an urban critic, remarks almost in disbelief,

"she believes, incidently, that the economy of the United States is in a process of stagnating".⁴ In 1969, most commentators found her assumption fallacious, but in view of the present economic crisis, we can only pay tribute to her idiosyncratic diagnosis.

The Strategy

As previously stated, Jacobs' premise is that "the economic survival and growth of a city depends on new forms of work being added to old forms of work".⁵ But this recommendation is simplistic. What is the exact nature of this work classified as either old or new? How does this process take place? What are the results of this process?

A breakdown of urban economic activity clarifies the nature of work performed within the city. Jacobs states:

Taken together, the three types of guilds give us a picture of the economy of a city that is not only valid for medieval times but for her own times as well: local goods and services that remain local, exports, starting with the initial exports; and local goods and services that become exports.⁶

It is the third category, local goods and services that become exports, that yields her economic strategy. Replacement of current import commodities can precede the generation of new exports. As she explains three direct results can follow import replacement:

1. the sum total of economic activity can expand rapidly
2. markets for rural goods can increase rapidly because of shifts in the composition of city imports
3. jobs in cities can grow very rapidly.

These are recognized as the three major characteristics of an economy with a high growth rate.⁷

Import replacement, then, is the primary strategy for revitalizing an urban economy. This is opposed to the concept of developing new exports. For Jacobs exports will follow automatically, the new work added to the old work of import replacement. As well, import replacement is specifically an urban or city function rather than a function of the national or rural economy.⁸

The two processes, import replacement and development of exports, are inter-locked and the interaction between the two is complex.

First the city finds in an older city or cities an expanding market for its initial export work...Second, some of the local suppliers of producers' goods and services export their own work.⁹

Third, many of the imports the city has been earning are replaced by goods and services produced locally, a process that causes explosive city growth.¹⁰

Fourth, the city's greatly enlarged and greatly diversified local economy becomes a potential source of numerous and diversified exports, including many consumer goods and services as well as producer's goods and services, and still other exports built upon local goods and services.

...Fifth, from this time on the city continues to generate new exports and earn imports; replace imports with local production; generate new exports and earn imports; replace imports with local production and so on.¹¹

This five-phase dynamic summarizes her explanation of urban economic development. Steps one and two are historical, explaining the economic raison d'etre of the city. The potential of a staple export customarily provides the rationale for city location. Subsequently, service industries develop around the export industry and the service industries also become exporters. The third step, the import replacement phase, is the most important. Next, import replacement generates new exports. In the final phase, import replacement and export generation stimulate each other in a progressive expansion. Any interruption in the process will cause the overall economy to stagnate:

...if a city stops generating new exports after an episode of import replacement, it will not earn more imports to replace. It will not have the grist, so to speak, for another episode. Anything that halts the export-generating process of a city ultimately kills the import-replacing process too.¹²

This statement emphasizes the inter-connection between the two processes. Export development alone is inadequate to maintain urban economic expansion, just as the consequence of import-replacement without progression to the next stage of exporting the newly developed products and services, also is a stagnating economy.

Import replacement produces a type of expansion in the urban economy that consists specifically of five forms of growth. These, according to Jacobs, are:

1. abruptly enlarged city markets for new and different imports
2. abruptly increased numbers and kinds of jobs
3. new uses of technology
4. increased transplants of city work into non-urban locations as older, expanding enterprises are crowded out
5. the growth of city capital¹³

Import replacement, then, produces a complex interaction of these five growth forces which revitalize the urban economy. This five-fold form of growth insures that the economy will possess the vitality necessary to cause the next stage generation of new exports, and so continue the cycle.

If every city were to eventually replace all the commodities and services that they currently import there would be no markets for new exports. This observation has led one critic to note, "Mrs. Jacobs deals with each city as an isolated economic entity, with its own exports and imports. She ignores the economic interdependence of today's world..."¹⁴

This critic has missed Jacobs' own answer to the question of inter-urban rivalry. On this subject she stated:

What happens to cities that lose exports when their customer cities begin producing the same things for themselves? Stagnant cities lose out. They fail to develop new exports that compensate for the losses. Creative cities do develop new exports that take the place of the old. Indeed, replacements of old imports and shifts to new ones by other cities afford to creative cities great new opportunities. Their own new and unprecedented exports can find new and growing markets.¹⁵

In order to answer this criticism she developed classifications for two types of cities - stagnant and creative. This classification is arbitrary and is used only in this particular context. Cities that are unable to rise to the challenge are stagnant. By definition they are bound to lose out, if not sooner then later. Creative cities, and we can assume that creativity is provided by the inhabitants, are those that will develop new, more useful export commodities from the work put in while establishing import replacements.

Jacobs sees the issue of competition as an opportunity rather than a disadvantage. It is an opportunity for creative cities to become stronger and it is an opportunity for the development of previously unthought of export commodities.

What kinds of commodities are recommended as target goods and services for replacement? Jacobs answers this question by showing that commodities must still be imported:

But inevitably, the time comes when so many imports have been replaced that the current imports of the city have shifted overwhelmingly to: a) rurally produced goods; b) goods and services for which the city affords a market too small to be worth producing locally for; and c) goods and services the city lacks the technical capacity to produce.¹⁶

All other commodities have potential to be replaced as import commodities. Only the first type, rurally produced goods such as food-stuffs, will always have to be imported to some extent. As a city grows so does the local market until finally the market may become large enough to warrant the establishment of a local industry. Thirdly, technical capacity may grow over time; it is a question that must be answered for each new technology and each city.

How far-reaching is Jacobs' strategy of import replacement, that is what are the limitations and the implications of the concept. Speaking about cities which are able to add episodes of import replacement onto episodes of export development from previous import replacement, she speculates:

...It will probably be in just such cities that current acute practical problems are first overcome - and in which new ones will come to light. Large margins for new local goods and services, are necessary to solve big problems that become acute in such cities at times when the same problems are still only chronic in other places.¹⁷

An economic strategy based on import replacement, then, is not only a basic prerequisite to solving the economic crisis it is the beginning of the solution to the complex of problems that make up the urban crisis. Cities that solve their economic growth problems will be in a position of working on other urban problems. Trying to solve urban problems within the context of a weak or stagnant economy is a matter of misplaced priorities. Cities that have been able to meet the challenge of revitalizing their economies will be on the leading edge of the overall urban crisis.

In summation, the strategy for economic revival is based on adding new work, in the form of replacement of existing imports, to the old export work already in practice. The expertise established to carry out the import replacement work will provide a springboard for new exports. New exports provide the capital for the purchase of new imports which, in turn, once a market is established, can be replaced generating the cycle once again. The concept central to this process is import replacement.

Tactics

If the diseased condition of urban arrested development is caused by a stagnating economy of which the symptoms are practical urban problems such as traffic stagnation, air and water pollution, crumbling physical plant, then a detailed economic strategy for reviving the urban economy must be prescribed.¹⁸ In reviewing The Economy of Cities, Peter J. Herriot sums up the Jacobian strategy.

But modern urban development is not, in Mrs. Jacobs' analysis, a consequence of a highly efficient system of industrial and financial institutions. Economic growth is the product of the addition of new work to old work. The conditions which best promote this new work are frequently the very opposite of efficiency and practicality: rich diversification, multiple small suppliers, widely dispersed capital, breakaways of workers from existing organizations.¹⁹

To this list, I would add innovation, inefficiency, juggling of social hierarchies and risk-taking. These tactics for success can be highlighted by a supplementary second list that would make up a strategy that does not work. This list would include: adding already created work, efficiency, large-scale organization, division of labour, increased planning activity, and good image which means image at the expense of substantial change.

Tactics Jacobs Prescribes for Success

Innovation, defined as adding new goods and services to the urban mix, is a basic ingredient of a mature and healthy city. Jacobs explains that it is innovating economies that expand and develop. If economies do not add new kinds of goods and services, but continue only to repeat old work, they do not expand much nor do they develop.²⁰ Innovation is essential for expansion, a quantitative process, and development, a qualitative process. Jacobs goes so far as to say that although economic life expands by grace of import replacement, it develops by grace of innovating. Referring to these two as "master economic processes", she states that they are closely related because they both are functions of city economies.²¹ Repetition of old work is synonymous with stagnation as it does not lead to either expansion or development.

In The Economy of Cities, diversity emerges as a tactical conception.

Only in stagnant economies does work stay docilely within given categories. And whenever it is forced to stay within prearranged categories - whether by zoning, by economic planning, or by guilds, associations or unions - the process of adding new work to old can occur little if at all.²²

This is a slightly different type of diversity than that referred to in her first book, The Death and Life of Great American Cities, where diversity stood for a rich mixture of people, public spaces, and buildings. In The Economy of Cities she refers to economic diversity which is the opposite of prearranged categories. Diversity represents variety and overlapping of economic functions. In other words, for an urban economy to be vibrant, with new work being added to old, different types of work must be integrated with a minimum of distinction between types of organization and labour.

For most critics a division of labour not clearly demarcated diversification would result in gross inefficiency. Jacobs would agree, in fact inefficiency is an integral part of her remedy for stagnant economies. She recognizes this inversion of traditional values in her statement:

Is it possible for the economy of a city to be highly efficient, and for the city also to excel at the development of new goods and services? No, it seems not. The conditions to promote development and the conditions that promote efficient production and distribution of already existing goods and services are not only different, in most ways they are diametrically opposed.²³

Inefficiency is a matter of priorities and of context. If priority is given to old work, which is already in process, efficient organization strengthens what already exists. But this will not encourage, in fact it will discourage, the creation of new work which is, by Jacobs' definition, development. Placed in the context of maintaining the status quo and ignoring development, efficiency would be the correct tactic.

To foster development Jacobs encourages inefficiency in the application of investment capital and the allocation of working capital.

Consider also the conflict between development and efficiency as it applies to the work of investing development capital and supplying working capital.²⁴

But for a city to develop new work at a high rate means that its enterprises must have access to much inefficiently dispensed capital: many, many small loans and investments, a high proportion of them out of the routine; still other relatively large loans for swift expansion of goods and services that seem to be working out experimentally but must go into larger-scale production to become practicable - although it is not a certainty they will be.²⁵

Defying conventional financial thought she advocated inefficient disbursement of capital with emphasis on all-inclusive development of the urban economy and not a narrow focus on investment return. Long-run gain must take precedence over short-run profit.

For analyzing the effectiveness of inefficiency, Jacobs notes the requirement of a multitude of small loans made available for the purpose of

development. This is an example of the value she places on the small enterprises.

Indeed, where large organizations are relied upon for economic expansion and development - that is where small organizations find little opportunity to multiply, to find financing,²⁶ and to add new work to old - the economy inevitably stagnates.

Smallness here refers primarily to small business although, by using the term "organization" she does not exclude the possibility of other institutions and individuals. The common factor that she emphasizes is one of scale. Large organizations tend to produce stagnation, where small organizations are more likely to be innovative and diversified. Also, as her statement clearly shows, small organizations, if successful, become large organizations and, at this point, their potential for revitalizing the economy is exhausted.

Jacobs' method of promoting inefficiency within large organizations and of encouraging the formation of new, small organizations is fragmentation.

Breakaways of workers - especially very able workers - from existing organizations promote the development of new work as well as the creation of new organizations. But breakaways are not good for the parent company; they undermine its efficiency. ...And, in any settlement where breakaways are inhibited, by whatever means, the development rate must drop, although the efficiency of already established work is apt to climb.²⁷

Again Jacobs is advocating a social anarchy running contrary to the status quo. Encouraging the most innovative employees to leave the parent companies and form their own businesses would weaken big business which is generally considered the motor of economic growth.

The shift of workers from employment in a large organization to self-employment is a radical change in the existing social hierarchy. This is clearly Jacobs' intention:

Thus, one of the social preconditions for economic development is not so much the opportunity for a person to change his work (and his class) from that of his father, as is often supposed, but rather the possibility of changing radically his own work and his own place in society during his own working life. This is not the same as being given the opportunity to train for work that has already been established by others and to engage in it, even though the change is a step upward.²⁸

Jacobs' motivation, then, is not simply to encourage upward social mobility, it is to constantly juggle the existing social hierarchy, whether shifts are lateral or even downward as in the case of a business failure. It is flexibility that creates new work; not changing employment for its own sake but for the purpose of originating new work. More precisely stated: "juggling social hierarchies and economic improvement go hand in hand".²⁹

To sum up, Jacobs recommends the following tactics in the prescription to restore a stagnant economy: innovation, diversification, inefficiency, smallness, breakaways and juggling of social hierarchies.

Tactics That Jane Jacobs Claims Will Not Succeed

Since a vital urban economy is characterized as adding new work to old, it stands to reason that a symptom of economic stagnation is the concentration of capital by acquisition of existing economic activity as opposed to the addition of new activity. According to Jacobs: "Whenever a large organization sickens or its profits fall off, the first tonic prescribed is the purchase of already created work".³⁰ Annexing an exciting successful operation is one method of diversifying the activity of a large organization. This may raise the profits of the parent group but, from the point of view of the overall urban economic scene, there is merely a shift in ownership. The level of economic activity remains the same.

Efficiency is another indication of economic stagnation. "Efficiency of operation, in any given case, is a sequel to earlier development work. Development work is a messy, time-and-energy-consuming business of trial, error and failure."³¹

First comes development work, part of the process of adding new work to old. If successful when new work has been added, the operation becomes efficient. Efficiency is the sign that the potential of that phase of new work has been reached. For the operation to add further new work, it must return to the earlier stage of trial and error.

Jacobs' formula for maintenance of the trial and error phase is to have a number of groups working on the same projects simultaneously. Citing the findings of a Rand Corporation study on this phenomenon, she states: "although duplication of effort was theoretically wasteful, it was not wasteful empirically".³² Here she is associating theoretical with short-term financial savings and empirical with long-term gains in the overall urban economy.

One method of applying efficiency to any operation is the adoption of a rigid division of labour. According to Jacobs:

Division of labour, in itself creates nothing. It is only a way of organizing work that has already been created.... Division of labour is a device for achieving operating efficiency, nothing more. Of itself, it has no power to promote further economic development.³³

and further:

Dividing existing work into tasks is by no means confined to advancing economies...A stagnant economy may lack almost everything, but not division of labour.³⁴

Obviously Jacobs is not impressed at all by elaborate divisions of labour. It is something applied after the fact, it creates nothing new. It is not difficult to impose, it follows logically after the creation of new work.

Annexing already created work, efficient operation and a rigid division of labour are all attributes of large corporations. Because of her commitment to small organizations, Jacobs feels that large organizations will not aid in the creation of new work.

Some kinds of production cannot be carried out except by large organizations with many internal divisions of labour. Such organizations are, by definition, relatively self-sufficient and use few external divisions of labour...
...Development of almost everything else halts in a city that becomes dominated by one or a few large organizations, although this is not, of course, the only reason cities stagnate and economies stop developing.³⁵

Examples of this phenomenon are Detroit, Michigan³⁶ and Rochester, New York.³⁷ Both are dominated by a small number of large corporations. Repetition of the existing type of work continues, profitably, but no new work has been added for decades. Breakaways are uncommon and the economy continues predictably, subject to the demands of a single market. For the purposes of an expanding urban economy, large corporations are efficient but not innovative or expansive.

Two techniques often used to promote growth of the urban economy are boosterism and increased planning activity. Jacobs sees no value in either. On the subject of boosterism she states:

Artificial symptoms of prosperity or a "good image" do not revitalize a city, but only explicit economic growth processes for which there is no substitute.³⁸

She is even more leary of organized planning activity, warning;

...some city planning departments take to scouting out and processing profitable deals for favored real estate operators and also to organizing and running fraudulent "citizens' organizations" to help overcome public opposition.³⁹

In review, as opposed to tactics used to remedy economic stagnation, a number of tactics that will fail in remedying, or are symptoms of, economic stagnation are: adding already created work, efficiency, division of labour, large corporations, good image, and increased planning activity.

Methodology

The three main methodologies employed by Jacobs in the delineation of her thesis are historical development, insight analysis, and organic metaphor.

Historical development, called "evolutionarianism" by one reviewer⁴⁰ does not concern this study because she utilizes this technique primarily in developing her thesis that urban development preceeded rural development. Note, though, that her thought process is always linear.

Insight analysis is a method that runs contrary to the accepted technique of empirical observation. She uses anecdote, speculation, and arbitrary observation as a basis for her theories rather than hypothesis tested by controlled and empirical evidence. Commenting on this technique, one reviewer described her theories as "a beguiling window-box of economics in which personal conviction and anecdote weigh more than statistics",⁴¹ while another, more critical reviewer accuses her of "unsatisfactory scholarship".⁴² On the other hand she has been praised for "her power of critical observation, her preference for concrete facts over vague

intellectual abstractions, and a simple, vigorous style purged of... jargon parroted by urban economists".⁴³ Examples of this technique, which can be either extremely creative or extremely faulty, are the use of Tokyo bicycle manufacturers and, for technical innovation, Ida Rosenthal, the inventor of the brassiere, as models which reflect the vitality of cities.⁴⁴

Her third methodological technique, organic metaphor, is the most significant for this study. In this she offers a view of the city diametrically opposed to the static analysis of economic base. For Jacobs, "the city is not a statistical model but a tangible organism bedded in a specific environment and always delicately balanced between growth and decay".⁴⁵

One biological metaphor she often uses is that of describing her view of the economy of cities as a "reciprocating system of growth" as in the following description.

...a city builds up its imports and thus becomes capable of replacing many of them. By doing so it becomes capable of generating more exports. It thus builds up imports and becomes capable of replacing many of them. By doing so it becomes capable of generating more exports. It thus builds up imports...and so on.⁴⁶

Throughout the relationship between new local work and new exports is described as reciprocating.⁴⁷ The continual interaction is emphasized; "but in a reciprocating system, if any one part of the process halts, the whole system fails".⁴⁸

A similar metaphor to reciprocity is "symbolic" by which she describes the relationship between finance organizations and producers as in the following:

Since development capital is a form of producers' goods, organizations that provide it can arise only where other kinds of producers are also arising. The relationship is symbiotic.⁴⁹

The process of city growth she describes as her "epigenesis theory" as opposed to the "preformation" theories of others. This theory states that "a city grows by a process of gradual diversification and differentiation of---its initial export work" which causes those cities to "radically differ in their growth process from inert towns and villages".⁵⁰ This type of city, she describes as a "embryonic city",⁵¹ finally concluding that "cities are not ordained; they are wholly existential".⁵²

When compared to classical economic technique, Jane Jacobs' methods are unorthodox, perhaps even anarchistic⁵³ or iconoclastic.⁵⁴ She studies the city as would a biologist⁵⁵ treating the city as "a kind of reciprocating machine, absorbing imports, turning out exports with a by-product of...new work as the index of its health".⁵⁶ The result is a dynamic view of the economy emphasizing process and transformation rather than the traditional static view.

Internal Dynamics

In terms of putting her ideas into the equations and formulas of classical economics, Jane Jacobs makes two new contributions: the formula showing the process of adding new work to old and modifications to the concept of the multiplier effect.

From her generalization: "Existing divisions of labour multiply into more divisions of labor by grace of intervening added activities that yield up new sums of work to be divided",⁵⁷ she derives the formula:

$$D + nTE + A \longrightarrow nD \quad 58$$

where:

D = division of labour
nTE = trial and error
A = new activity
nD = an indeterminate number of new divisions of labour

The reason trial and error is characterized nTE is because of the extreme difficulty of this process:

One of the most expensive things an economy can buy is economic trial, error and development. What makes the process expensive are the great numbers of enterprises that must find initial capital - which must include those that will not succeed - and the great numbers that must find relatively large sums of expansion capital as they do begin to succeed.⁵⁹

Jacobs modifies the accepted concept of the multiplier effect by dividing it into two types: an export multiplier and an import replacement multiplier. On the export multiplier she states:

...it seems to me useful to call what is generally referred to as the multiplier effect, meaning a city's growth of local work owing to the growth of its export work, by a name a little more precise than is now conventionally thought necessary: the export multiplier effect.⁶⁰

What is new to the concept is the import replacement multiplier effect, reflecting the emphasis she places on import replacement as the vehicle for the creation of new work.

In sum, the multiplier effect from import replacing is far more potent than the multiplier effect from growth of exports, because all shifted imports go to swell the local economy. An equivalent amount of imports earned by export growth do not.⁶¹

Combining her concepts of two interlocking and reciprocating systems⁶² and the export multiplier and import replacement multiplier, she develops the following diagram to explain the overall urban economy:

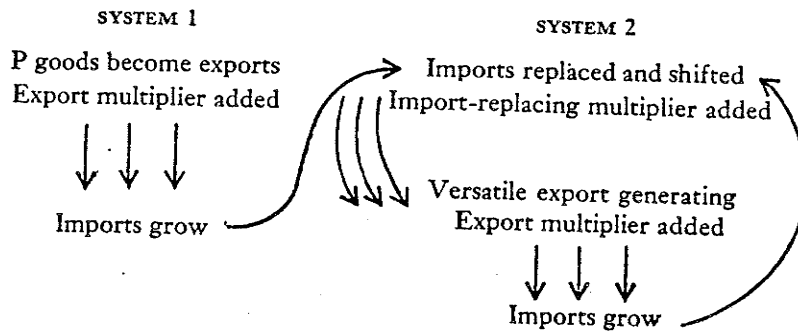


Figure 6 - A reciprocating economic system⁶³

Public and Private Sectors

To fully comprehend Jane Jacobs' scenario of economic recovery we must take into account the respective roles of government, big business, small business and finance capital.

Government should play the role of protector and promoter of economic development.

In this conflict, other things being equal, the well established activities and those whose interests are attached to them must win. They are, by definition, the stronger. The only possible way to keep open the economic opportunities for new activities is for a "third force" to protect their weak and still incipient interests. Only governments can play this role.⁶⁴

She does not address how government can use its powers to protect and encourage newly developing business enterprises leading to criticism that she had not included concrete political recommendations.⁶⁵ Although she clearly assigns the state a determining role counter to the most powerful interests in society, she does not specify how government can intervene so forcefully.

She avoids the issue by criticizing the current passivity of the state, calling government imitative rather than innovative. Also she

infers that governments look for solutions that sound splendid but are too grandiose for practical purposes.

...people who run government activities, the world over, tend to seek sweeping answers to problems; that is answers capable of being applied wholesale the instant they are adopted.⁶⁶

This type of all-encompassing solution runs contrary to her recommendations of a slow process of targeted intervention in the urban economy and leads to "all sorts of philanthropies, extravagances, and displays of vain-glory".⁶⁷

One way government could exercise its benevolent powers is by diverting capital to carefully selected small enterprise. She condemns the lack of creativity in state agency planning.

Capital is not used this way by most agencies of government, especially those presiding over services for "the general welfare". Those agencies tend to use capital, for the most part, as if money itself were capable of solving problems and promoting the general good.⁶⁸

to which she adds:

Capital by itself, can create nothing...To use capital purposely and knowledgeably for development is impossible unless small sums have first gone - most likely for quite different purposes - into a multiplicity of small new departures.⁶⁹

In other words: "many different kinds of investors ought to start betting a lot of long shots at the \$2 window".⁷⁰ Jacobs advises the establishment of local lending agencies specializing in small loans to new ventures which would add new goods and services to the older work in their cities.⁷¹ Small loans to small businesses rather than large investments in all encompassing solutions. The existing financial institutions, the well-established, generalized banks, have a proven track record for avoiding risk and investing in existing work.⁷²

Because economic development, in her view, is dependent on new, small business rather than large corporations her proposals for economic development are "profoundly subversive of the status quo".⁷³ Bis business, then, has almost no role in promoting urban economic revitalization.

The importance she gives to small business had led one reviewer to conclude: "Thus, the major causal agent in her theory is the innovative entrepreneur" and to further accuse that she is extolling the virtues "of 19th-century rugged individualism".⁷⁴ Unquestionably a major weakness in her theory, is its dependence upon state control and small business while leaving no role for the large corporation, which is in reality the most powerful force.

In summary, Jane Jacobs' recommendations are for government to intervene in the economy on behalf of small business by controlling the flow of finance capital. Her economic development strategy can be fulfilled by the availability of small, seed loans to emerging small businesses specializing in new forms of import replacement work.

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Chapter 6: Self-Reliance

The Institute for Local Self-Reliance

The Institute for Local Self-Reliance (ILSR) is a non-profit organization based in Washington, D.C. The objective of the ILSR is to encourage cities to pursue local self-reliance as a development strategy; to unite political authority and modern technology so that a significant portion of wealth can be generated internally.¹ The ILSR has stated its goal as follows:

Local self-reliance means the control of neighborhood wealth by and for neighborhood residents. It means local production from local resources for local consumption. The goal of the Institute is to encourage self-reliance by demonstrating that human scale is a viable option. We pursue this goal because we believe that human scale is a prerequisite of any equitable and democratic economic and political system.²

The ILSR functions to promote this goal in the following manner:

The Institute for Local Self-Reliance helps cities and neighborhoods put their wealth to work - and then to keep the benefits in their own communities. We analyze local economies, looking at where money comes from and where it goes. We evaluate new technologies, such as solar energy systems, which lend themselves to small scale production. We promote democratic decision making, by showing residents how to plan their own community and economic development.³

The three main functions of the ILSR are analysis, evaluation, and promotion. The first two functions, analysis and evaluation, include developing reports which establish a methodology for analysis to be used as a basis for evaluation. The third function, promotion, involves a high-profile activist role in the community. According to its literature, the Institute promotes the concept of urban self-reliance by disseminating information such as technical reports which evaluate the technical feasibility and economic viability of local self-reliance and by providing direct technical assistance.⁴

David Morris, the Director of ILSR has published three books: Neighborhood Power, Self Reliant Cities and The New City-States. The ILSR also publishes a newsletter, "Self-Reliance". Morris sums up the dominant theme of his publications as the "self-reliant city views itself as a nation".⁵ The underlying dynamic of the thought of the ILSR is the concept of self-reliance and the metaphor of city-as-nation.

The Concept of Local Self-Reliance

Local self-reliance is a multi-disciplinary term. David Morris explains its relevance to research other than city planning:

The term "local self-reliance" is defined in various ways by different disciplines. To the ecologist, local self-reliance means "closed loop systems" where the wastes of one process become the raw materials of another. To the economist, local self-reliance means capturing for the benefit of the local community the greatest amount of "value added" to the original raw material through processing and marketing. Local self-reliance, to biologist Russel Anderson is "a type of development which stimulates the ability to satisfy needs locally". it is "the capacity for self-sufficiency but not self-sufficiency itself". Self-reliance represents a new balance, not a new absolute".⁶

Self-reliance, then, refers to a process rather than a goal such as self-sufficiency. As a process, or a balance, the conditions that promote self-reliance must be constantly under scrutiny; when one side of the equation changes the other side has to shift accordingly. Self-sufficiency denotes a completely different phenomenon. It represents a final state, a closed system rather than a closed loop system, or the end of a process rather than the process itself. Morris elucidates the differences between self-reliance and self-sufficiency.

Cities have the resource base to move toward self-reliance. Not self-sufficiency, but independence - looking inward instead of outward, building on their scientific and technical knowledge to design systems that maximize the benefit to the city as a whole.⁷

Self-reliance is an inward process, a practice of using state-of-the-art technology to minimize dependence on externalities as opposed to utilizing technology for its own sake. Self-sufficiency is outward by comparison. The goal is to eliminate dependence rather than promote independence. Self-reliance is related directly to the economy of the city, as an inward process through which to guide scientific knowledge that will provide a foundation for urban autonomy.

Autonomy is the quality that is refreshingly new in the concept of self-reliance. Finkler and Peterson observe that traditional urban analysis lacks this focus.

Urban economists, perhaps influenced by the pervasive liberal solution of more and higher levels of government, have emphasized the dominant influence of external forces upon the economy of the city. Their techniques and analytical devices (such as export base analysis, shift-share analysis, and input-out analysis) often uncritically assume the primary influence of external forces. No wonder, then, that cities are viewed as a mere appendage to the national economic picture.⁸

Self-reliance differs from self-sufficiency and also contrasts sharply with export base analysis and its spin-off theories. Self-reliance, as applied to cities, concentrates on internal strengths rather than external forces. The aim of self-reliance is not to eliminate externalities but to interact with outside economic forces in order to minimize dependence. The approach of export base analysis is uncritical, accepting of social values that benefit only the elite of society. Self-reliance implies a willingness to criticize and a desire for change that benefits the entire community. This critical vision is dynamic provided it does not narrow its focus, a hazard Morris and his associates are well aware of.

"Local self-reliance is a positive concept. It implies strengthening the local economy and building self-confidence and skills at the local level. But it can also imply parochialism and rivalry."⁹

The latent negative side of self-reliance, parochialism, a limiting of scope, and rivalry, or striving to keep all benefits within the city limits, would vitiate potential of the self-reliant principle. To avoid these problems Morris advocates "a massive dose of information".¹⁰ But information from whom and for what purpose?

What Morris' vision embodies is information exchange between cities. New information will thwart the tendency toward inwardness and parochialism and innovation transfer will combat rivalry. Voluntary sharing of the results of research is a radical departure from current business and national policy. City-to-city information exchange is the first step. The exchanges of local self-reliance cities could then escalate to an international level.¹¹ Morris recognizes the formidable difficulties involved in initiating this type of information exchange but also recognizes the advantages, even the necessity of developing an international information network in order to benefit the ordinary citizens and the nation rather than corporate interests.

Rather than moving up the political ladder, we suggest that cities have quite enough resources to deal with most issues, and that they should begin interconnecting with other cities, just as neighborhoods have done, when they are fighting major interest groups. Cities do have the wherewithal to develop their own industries, and work in association with other cities around the world where their interests are threatened by multinational corporations.¹²

The implications of this are far ranging as adoption of principles of self-reliance would put some cities in overt conflict with multinational

corporations, whereas in the past antagonisms were usually resolved in the interest of private capital. Information exchange between affected cities would have to take place with the same ease that a multinational communicates with its subsidiaries. The difference would be of organization as an alliance between self-reliant cities, a union of decentralized powers; the organization of a multinational being centralized and hierarchical.

What socio-economic conditions have combined to make self-reliance a viable alternative at a time when external constraints on the urban economy are so powerful. Morris outlines the three forces which work together to encourage local self-reliance:

- 1) the increased cost and decreased availability of raw materials, including but not limited to fossil fuels, pushes us to substitute more abundant and renewable materials. This in turn encourages us to recycle our scrap products, to process materials at the local level, and to generate nearer the final customer.
- 2) the extraordinary rapid development of new technologies, spurred in part by the exponential increase in scientific understanding and in part by rising resource prices.
- 3) the electronics revolution, a part of the general technological advancement sweeping the nation, allows us to monitor our environment and understand our relationship to it. The electronics revolution also permits us to step outside our homes and communities and look back, to gain a different and perhaps more comprehensive perspective.¹³

These three forces, shortages of energy and raw materials, new technologies and the electronics revolution, have combined to create an opportunity for the concept of self-reliance to be widely accepted.

Self-reliance, as a concept, rests on three precepts:

- 1) the principle of prevention rather than treatment
- 2) the principle of integration rather than separation
- 3) the principle of subsidiary¹⁴

The principles of prevention and integration are self-explanatory. The third principle, subsidiary, Morris defines as, "you should never assign to a large entity what can be done by a small one. What the family can do, the community shouldn't do. What the community can do, the states shouldn't do - and what the states can do, the federal government shouldn't do".¹⁵ For self-reliance advocates, subsidiary means a tendency to descend or settle toward the bottom rather than denoting a branch operation controlled by a main company or headquarters. The principle of subsidiary, as it relates to self-reliance, means descending the hierarchy of authority to find the lowest, most personal level at which a function may be performed. The principle of subsidiary and the principle of integration overlap as both curtail the most costly feature of urban life, its tendency toward separation. Both stress a sense of place and move us toward a more communal city comprised of neighborhoods where citizens can fulfill most of their basic social and economic needs.¹⁶

Local self-reliance is an inward process leading to urban autonomy. It is not autarky. Rather it can be situated between the extremes of the concept of self-sufficiency and the dependency on externalities implied by expert base analysis. On the negative level, it can lead toward rivalry and parochialism but these tendencies can be countered by the positive benefits of information exchange. Self-reliance has been made possible by shortage of raw materials, new technologies and the electronics revolution. The doctrine of self-reliance is based on the principles of prevention, integration and subsidiary.

City as Nation

Morris' analogy of the city as a tiny nation is radically new rather than a return to the old Greek concept of autarchic city¹⁷ or city-state. The metaphor provides a new way of viewing modern cities operating under the pressures that promote self-reliance.

The city is becoming an ecological nation. As such, the city maximizes the long term value of its finite piece of land by creating elegant, biologically-based systems.¹⁸

Here the analogy is used to define an ecosystem. The city is delineated by its geographical borders and its infrastructures. Within these confines is an economic base.

The self-reliant city views itself as a nation. It analyzes the flow of capital within its borders and evaluates its "balance of payments". It recycles money much as it recycles goods. Every added cycle increases the community's wealth. Businesses are evaluated not only for the services or products they offer but for the way they affect the local economy.¹⁹

The city takes on the economic characteristics of a nation. Revenues are balanced against expenses. Capital is a commodity, as any other good or service which interacts within the ecosystem. For a city to be self-reliant, the principles of conservation apply to capital as much as they apply to raw materials. Businesses that supply capital must be seen within the context of the entirety of their interaction with the city's borders.

Morris has not always taken the city as the core unit of self-reliance analysis. His original conception was of the neighborhood as nation. In his 1975 book, Neighborhood Power, Morris stated:

Our neighborhoods are tiny, underdeveloped nations. They are owned, by and large, by outsiders who view them as profitable investments. Local money is put into financial institutions which invest it outside the local economy, often in competing industries...The neighborhood, or little country if we follow

that analogy, exports labor-intensive services and imports capital-intensive finished goods, paying out high prices for a technology generally unsuited to local conditions.²⁰

In this statement Morris established the rudiments of the more comprehensive analogy of city as nation. The eligibility of neighborhood for core unit was determined by its potential to be productive and self-governing²¹ yet easily organizable. But for the neighborhood analogy to work, Morris found it necessary to invoke the model of underdeveloped nations. Gross Neighborhood Product and neighborhood balance of payments became appropriate subjects for research.²²

Morris' substitution of the concept of city as ecological nation for neighborhood as underdeveloped nation is a positive shift as cities have the resource base to progress toward self-reliance whereas individual neighborhoods do not. "Although the neighborhood is the human and social base for a new society, the city is a first-stage basic political and legal base to safeguard the interests of the embryonic nation."²³

Working together, neighborhood units can combine to produce a self-reliant city and it is the city that has the scale, complexities, organization and management skills to achieve self-reliance:

Cities can now view themselves as tiny nations. They can reduce their imports by making efficient use of locally available human, natural and technological resources. The sewage plant becomes a fertilizer factory and gas well. The solid waste stream becomes a source of raw materials that are processed and recycled for local consumption. Sunlight becomes a fuel source. Basement boilers become power plants. The municipal corporation becomes a tool, an enabling device. The city exercises its financial, economic and regulatory authority to encourage local enterprise.²⁴

The product of viewing the city as a tiny nation is a tailor-made economic development policy. A policy that takes into account human

needs and human scale, available resources, political authority and local irregularities. The application of the city as nation analogy also suggests reconceptualizing the city as a mine and a power plant.²⁵ All the attributes of a nation are contained in miniature within the borders of the city. The analogy provides a new analytic model for cities, and, when combined with the concept of local self-reliance, points the way to an entirely new economic development strategy. Using the metaphor of a mine Morris incorporates recycling metallic and organic materials. The power plant concept emphasizes decentralized and renewable energy resources.

Economic Development Strategy

An economic development strategy based on local self-reliance has four main goals:

1. taking control in order to gain autonomy
2. decentralizing power
3. moving toward a steady-state economy
4. providing a diversified industrial base.

Taking control infers that, through an historical process, control has been forfeited. Currently the process of economic development is being manipulated by higher levels of government, private development and external financial forces. Morris identifies an opposing trend which could eventuate in cities once again controlling the economy within their boundaries.

The state of the art of urban economic development has moved from simple business promotion to targeted intervention in the local economy based on economic research and planning. It then moved to more entrepreneurial investments and business development and financial leveraging.²⁶

The process of taking control has changed from a passive to an active role. Advanced urban economies are entering into joint ventures with private enterprise. Financing is the key to the process, or in the words of Morris "the power of the purse largely determines political authority".²⁷ Because political authority, at present, is highly centralized with the emphasis on large-scale organization, "the purpose of gaining power is to decentralize power".²⁸ Decentralizing power is one of the main strategies of local self-reliance.

...we have to confront and transform institutions built in another era, when resources were plentiful, growth was the objective and affluence was a never ending spiral. We are cursed with giant central power plants, interlocking directorates between big corporations, big factories, and big government, production systems far removed from their markets, bloated bureaucracies which are on the whole unproductive, if not downright destructive, and hierarchical organizational structures which remove the top policymakers from the impact of their decisions.²⁹

This situation must be changed. Power has to be decentralized so that personally concerned individuals are able to take part, once again, in the decision-making process. The municipal level lends itself best to this process. "The city governments are those closest to the people. As a result, they lend themselves to active participation in decision making by the greatest number of citizens."³⁰ Political jurisdictions should be made to coincide with population concentrations so that metropolitan areas will become effective decision-making entities.³¹

In the event that political power were to become decentralized so that urban areas would have autonomy from outside economic influences, then the state of the urban economy could be stabilized leading to what Morris calls a steady state economy:

We are moving into an era of what might be called a steady state economy...A steady state economy does not mean that we have no progress, no changes, no advances. It does mean that those changes will have to be much more conscious, because we cannot continue to "waste" our resources on industries based upon fast obsolescence and rapid changes of style. It means that we will have to be making choices between qualities as well as quantities of production.³²

The concept of a steady state economy derives from the application of the principles of ecology to economics. The concept is defined by a constant relationship between population and the stock of artifacts in an economic system through which the rate of energy-matter is reduced to the lowest feasible level.³³ It is an economic reversal of the entropy law as applied to economics which states that energy and matter in a low state to entropy are constantly being turned into valueless residuals in a high state of entropy.³⁴ The goal of steady state economics is an urban economy without the fluctuations and cycles generated by the international trade and credit system. Stability is the major attribute of a steady state economy. In order to have stability, an urban economy must possess a diversified industrial base.

Cities are discovering that reliance on one or two large employers leaves them vulnerable to cyclical instabilities in the local economy. To rely on a more diversified base, composed of smaller enterprises tends to make a more stable economy. Most jobs are created not by large plants but by the millions of tiny businesses.³⁵

A self-reliant economic strategy strives for economic stability by relying on a diversified industrial base. In order to achieve this, cities must exercise financial control by decentralizing political authority so that there is more accountability to citizens participating in the decision-making process.

Tactics

One phrase sums up the tactical thrust needed to promote local self-reliance as a development strategy. This phase is "plugging the leaks". By this Morris means plugging the economic leaks in the local economy. Two methods used to help identify the economic leaks are neighborhood resource inventories³⁶ which are methods of estimating the neighborhood's natural resource reserve, and community cash flow studies³⁷ which are economic studies showing what money comes into a neighborhood and where it goes. Both types of studies are still in the experimental stages. Although researchers have constructed models of each method, further research and practical application are necessary.

Reducing imports is a major means of plugging leaks. First, a community has to determine what is imported. "The average city of fifty thousand imports 100 tons of food, 475 tons of fuel, and 31,250 tons of fresh water each day."³⁸ The next step is to determine which of the imported commodities could be produced locally.

Researchers have since come to a similar conclusion - most of the things we need could be manufactured locally with out larger urban areas. One study found that, if automobiles and petroleum products were excluded from the total, 58 percent of final goods consumption, by value, of a population of one million could be produced locally in small plants. Sixteen percent of the consumption needs could be produced by plants for a market population of 200,000.³⁹

This does not necessarily mean that the exact products will be substituted for imported products. "Local self-reliance may require trade-offs. A functionally equivalent product may be manufactured in a variety of ways, depending on how much the producer wants to substitute indigenous resources for imported resources."⁴⁰

In addition to utilizing indigenous materials in manufacturing, utilizing appropriate technology on an appropriate scale is another tactic for plugging leaks:

So we have a choice. Nuclear-power plants, metropolitan sewage-treatment plants, internal-combustion engines or solar cells, in-house waste-cycling systems, and electric cars. It is not only an ecological and economic choice, but a deeply political one. It asks whether we want to move our productive facilities back into our communities, or remain at the mercy of isolated forces operating on criteria that give human concerns a low priority.⁴¹

A factor in favour of appropriate technology is reducing energy consumption. Energy dollars represent one of the major drains in the local economy; "the collective fiscal import of energy imports on the local economy has become increasingly harmful. More than 20 percent of the gross income of a community is paid for energy; 90 percent of these dollars leave the local area. They are unavailable for future local reinvestment".⁴² Public awareness of rising energy costs and energy inefficiencies is producing a new form of energy awareness:

There has been a profound shift in the economic equation concerning energy and that shift now makes economical the movement of production and consumption back together, countering the century old movement toward separation of the production, consumption and disposal functions. Energy efficiency can be viewed as part of a comprehensive economic development strategy. Efficiency means using integration rather than separation as a design principle that extends beyond what we commonly view as energy sectors.⁴³

Efficient use of energy, then, plays an important part in plugging the leaks in the community cash flow. Energy conservation, besides reducing the outflow of energy dollars, involves local businesses and creates employment. "Storm window companies, insulation contractors and solar-equipment installers are often local businesses. Thus programs that encourage energy self-reliance reduce the city's cash hemorrhage and, recycling money in the local economy, create jobs."⁴⁴ Energy production

also has potential to be handled locally rather than from large-scale plants. "The basic lesions of the new age of energy are that efficiency, economy, and technical stability of our energy systems will be greatly enhanced if we depend on millions of power plants rather than thousands, and we use fuels generated locally."⁴⁵

In review, the tactics for plugging the leaks in the local economy include conducting neighborhood natural-resource inventories and community cash flow studies, reducing imports, utilizing appropriate technology, conserving energy and decentralizing energy production. The key concept to recognizing the benefits of plugging the leaks is the multiplier effect.

The multiplier effect refers to the number of uses money that has entered the local economy can be put to before it leaks out. Money that remains in the local economy goes through another round of savings and expenditures. "The more transactions the money can be used for locally, before it leaks out, the higher the multiplier effect and the greater the return to the local, public treasury for sales and other taxes. One of the common definitions of money is that it is a store of wealth: a high usage of money translates into increased wealth in a locality."⁴⁶ When money is exported from the community by chain stores with corporate headquarters elsewhere or by banks making loans outside the community, then the benefits of the multiplier effect are lost to that community forever.

Social Change

Local self-reliance as an approach to urban economic development differs from traditional approaches in that local self-reliance recognizes

social change as a motivating factor. In fact, local self-reliance is based on recent modifications of the social structure. Speaking about the forces working for and against local self-reliance, David Morris states:

There are powerful forces working to move us toward local self-reliance. But there is no inevitability that we will achieve that goal. Institutions change slowly. Habits and customs change even more slowly. When people redefine their functions and new institutions arise to take care of new desires and needs, old institutions feel threatened. Structural tensions arise. The tension between the old and the new is now growing wider, and therefore the kinds of change and the rapidity of change will become more profound.⁴⁷

The measure of social change is the effect on existing institutions and the establishment of new institutions. Some of the existing institutions are powerful and have a profound effect on neighborhood life. A strong base from which to deal with these institutions can be developed from a move into the municipal political arena.⁴⁸ The method of building new institutions to meet the challenges of social change is a three step process, outlined in the following statement:

On the neighborhood level, in order to begin controlling the fiscal flows within the community there need to be a number of different levels of education and institution building.

1. First, there might be actual research studies which show how much aggregate income there is in any given neighborhood.
2. Second, mechanisms could be developed to teach people how they can begin to redefine taxation and credit, and control at least to a minor extent the money they earn. This means the development of, for example, community sustaining funds, internal taxation mechanisms to serve the neighborhood itself, and credit unions to capture a part of the savings in the area.
3. The third step might be the establishment of a full-service bank, a neighborhood development bank, which can fully involve itself with loans, savings, checking and a number of services for the community.⁴⁹

Education is an important factor in institution building. One major aspect of education is political organization and mobilization. There are three reasons for political organization. These are: to maintain the integrity of the area against outside interests, to decentralize power from the city to the local unit, and to establish new institutions which reflect the economic, social and personal relationships the neighborhood wants for itself.⁵⁰

Political organization for the purpose of establishing new, more humane institutions might imply further government hierarchies but this is not the case. Morris makes clear the distinction between "governance" and "government" - "the process rather than the paraphernalia of governing".⁵¹ If the process of governance is emphasized, it will affect the roles of the public and private sectors.

Self-reliant cities minimize government but not necessarily governance. The very terms "citizen" and "cities" connote political authority. Practically, as communities take an active role in promoting local self-reliance, the traditional distinction between public and private sectors begins to blur.⁵²

Public Sector

There are four main institutions through which individuals and neighbourhoods can work toward local self-reliance for the city. These are:

1. the municipal corporation
2. the energy utility
3. the public authority
4. associations or common-interest communities

The municipal corporation has undergone a vastly changing role since cities first incorporated. "In short, the municipal corporation is an

evolving creature. Once viewed as nothing more than a mere tenant, cities now possess immense economic and political authority."⁵³ Parallel to changes in the role of the municipal corporation are changes in public perceptions of the municipal corporation. "Long viewed as little more than real estate developers and social welfare dispensers, the municipal corporation is asserting the more important function of planning and development".⁵⁴ One function of the municipal corporation, as the local agency of government, is that of growth control and management in the metropolitan region.⁵⁵ Another function of the municipal corporation is to promote small businesses by solving their problems with initiative and innovation.⁵⁶

The primary function of the municipal corporation is to take in and dispense capital, and by doing this, have the most profound effect on the local economy. In this way the municipal corporation resembles the workings of the energy utility. "These two institutions leverage large sums of money, serve geographically limited areas, and are directly or indirectly controlled or regulated by the public they serve."⁵⁷ The similarities do not end there:

Municipal corporations have some of the same advantages that energy utilities have in financing energy self-reliance. Both can borrow large sums of money for long durations. Both do long-range planning. Both take account of future energy costs, and both can include in their cost-benefit equations the benefits of reduced energy demand. But cities have one advantage that investor-owned utilities do not have; they can borrow money at tax-exempt rates.⁵⁸

The latter statement refers to the ability to issue municipal bonds which require no federal taxes to be paid on the interest.⁵⁸

Another form of corporation, whose power parallels the municipal corporation, is the public authority. Formed by government, but not

directly controlled by the electorate, they represent a new force in the political landscape.

Nourished by business methods, they are non-profit, have no stockholders, are immune from anti-trust laws. They build public projects using private money. They are... corporations without stockholders, political jurisdictions without voters and taxpayers.⁶⁰

In Canada, the Crown Corporation is much like the public authority, although the designation refers specifically to large scale projects such as the Wascana Valley Authority in Regina, Saskatchewan.

At the neighborhood level, the most important scale for local self-reliance, there is the potential for the formation of a new form of neighborhood government - the association or common-interest association. These are "communities in which a person automatically becomes a member of an association by virtue of provisions set forth in a declaration recorded in land records".⁶¹ Among these neighborhood associations are cooperatives, collectives, food conspiracies and the community-development corporation. "A community-development corporation, or CDC, is a corporation based in one geographic area and controlled by its residents."⁶² A definition of a CDC would require that it be a corporation, as opposed to a governmental body or loosely knit business enterprise, with an identifiable set of links with a particular community. Usually the local communities in which CDC's operate tend to suffer significantly worse social and economic conditions than the cities in which they are located. CDC's are concerned with an array of programs that have political, social, and economic development as their stated purpose.⁶³ Although CDC's contain programs aimed at financial self-sufficiency, defined as the ability to generate sufficient revenue from the for-profit subsidiaries to continue in the absence of public or private grant support, they place

broad emphasis on the social programs needed to complement economic and physical development even though these programs will require subsidy.⁶⁴

The multiple goals of the programs with a CDC include:

- raising the material standard of living of residents in its community
- increasing the political and social power of the community in the wider society
- increasing the skill level of the residents
- increasing the sense of community and the quality of life within it⁶⁵

Formation of the CDC would be realized through a sustaining fund available from the municipal corporation. These two political entities, the municipal corporation and CDC or city and neighborhood, would co-operate for mutual benefit. One of Morris' suggestions is for "the CDC to contract with the city to provide basic services in the community. Most services are optimally run on the neighborhood level anyway, as the following chart shows".⁶⁶

PER CAPITA COSTS OF SERVICES

	<u>Population Category</u>		
	Less than 10,000	50,000 to 99,000	250,000 or more
Police protection	\$5.70	\$7.50	\$19.10
Fire protection	1.42	4.85	10.81
Sewage	2.65	6.30	10.61

Figure 7: per capita costs of services⁶⁷

Private Sector

"Small business is the catalytic force in the local economy."⁶⁸
This statement is not simply opinion, it is statistically proven.

...A massive study of 5.6 million firms (representing 82 percent of the nation's private jobs) was conducted by David Birch. He tracked these firms over a seven-year period, from 1971 to 1978, and concluded the country's biggest job producer was small firms. Two-thirds of all new jobs were created in companies employing fewer than 20 people. The top 1,000 firms on the Fortune list generated only 75,000 jobs, or just a little more than one percent of all new jobs created between 1970 and 1976. Birch found that most jobs came from the start-up of new firms, and the expansion of existing small business, destroying the myth that economic development is created by plant relocations and expansion of big corporations.⁶⁹

Promoting local small business enterprises is in the best interests of the self-reliant city. This includes both starting up new small companies and retaining, or keeping solvent, existing firms. The definition of small business refers to the entire range, from small manufacturing corporations to ma-and-pa grocery outlets.

Three key industries with potential for expansion made possible by virtue of advances in modern science are: energy conservation and renewable energy technologies, recycling, and communications. Businesses within these industries remain competitive by consuming fewer raw materials to increase productivity.⁷⁰

A corollary to the scenario of promoting small business is that large, international firms do not promote local self-reliance despite short-term boosts in local employment from the influx of outside capital. The argument for this position is as follows:

Ironically, attracting outside investment may well increase economic instability. Absentee-owned businesses tend not to be good neighbors. They cut back employment during down cycles and recessions more than locally based companies. They are less likely to purchase local services and products, such as legal assistance, financial counseling, capital borrowing and factor inputs.⁷¹

Conversely, an argument in favour of large, absentee-owned businesses is that they are able to utilize economies of scale because they purchase, produce and merchandize in volume. "The advantages of economies of scale in most industries are dubious. Even where they are claimed to be substantial, they must be weighed against the disadvantage of having lost control over the production process itself."⁷² Control over the production process is a crucial aspect of local self-reliance. This should not be confused with the Marxist strategy of workers controlling the means of production. Commenting on worker control, or take over, of industry, David Morris comments: "...a mere change in ownership would not necessarily mean real social change".⁷³ Employee ownership, or industrial production cooperatives, are a serious alternative to plant closings caused by corporative divestiture. Another situation where this alternative makes sense is when there is lack of entrepreneurial initiative to form the corporation in the first place.⁷⁴

Footnotes

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Chapter 7 - Theoretical Considerations

Summary

The theoretical portion of this thesis has utilized a framework suggested by the works of economist Edgar Dunn Jr. The evolution from the concept of aggregate growth and its causes to a comprehensive view of co-ordinated and prioritized economic development strategy has been traced in the thought of increasingly sophisticated theorists. Traditional economic base theory focused on the measure of growth in the economy, which either encompassed factors of development or totally ignored quality-of-life issues, by placing all urban economic activities into basic and non-basic categories. Blumenfeld reversed that formulation and his ensuing analysis suggested alternatives to the classic paradigm. Dunn proposed two developmental models functioning as learning systems, one with the capacity to be reprogramed and the other with the capacity to reprogram itself. The first was identified as a mechanistic model and the second as an open system and respectively assigned, by this thesis, to the theories of Jane Jacobs and David Morris.

Each theory, economic base, Jane Jacobs' and self-reliance, has been reviewed and explicated, for the sake of continuity, as a maturing of theory, evolving from a concept of economic base as the stimulator of growth to a comprehensive and directed urban economic development strategy. No effort has been made, as yet, to synthesize these theories into one ideal theory or to critically contrast the theories of Jacobs and Morris in the same way traditional growth theories have been contrasted to alternative development theories.

There has been no comparative evaluation of these various theorists. The worth of the quality-of-life bias of the alternative theorists is not esteemed more highly than aspects of economic base theory such as, for example, the concept of the multiplier and the technique of input-output analysis. What has preceded is an independent delineation of each body of theory for the purpose of establishing an overview of theoretical concerns and recommendations and establishing a chronological transition from the concept of growth to an urban economic development strategy.

Geographic and Political Context

None of the theories under examination have been placed into a Canadian context and particularly the Winnipeg situation which this thesis intends to examine. Economic base theory was the product of observation of the workings of economic phenomena and so is universal in its application. Blumenfeld was working within the parameters of economic base theory and so is similarly universal in application.

As a general theory of economic growth evolves into a specific economic development policy so does the context in which this evolution takes place become more specific. Jane Jacobs' theories become more centred on a sense of place and the workings of a political, economic system. Examples of theorists showing similar concerns can be found in the literature of Canadian urban analysts. For example, Jacobs' emphasis on the role of the entrepreneur and the significance of innovation is mirrored in Canadian theory and Winnipeg practice. David Walker, co-author of "Encouraging Innovative Entrepreneurship: A Neglected Aspect of Development"¹, notes that Canadian development policy has neglected the innovative entrepreneur in favour of building infrastructures

and facilities.² He reviews government measures such as establishing innovation centres³ and enterprise workshops.⁴ Phase one of Science Place Canada, the Institute for Manufacturing Technology, is under construction at the former St. Paul's College site in downtown Winnipeg under the sponsorship of the National Research Council.⁵ Science Place Canada is planned to function as an innovation centre for the western region.

Historically, innovation can be demonstrated to have been of great importance in Winnipeg's economic development. This statement is best illustrated in the anecdotal style peculiar to Jane Jacobs. Between the years 1925 to 1950, Canada Packers' St. Boniface plant, under the directorship of Mr. Joseph Harris, developed a Can-Pack system of slaughtering and dressing cattle. This innovation was meat packing's first "on the rail" operation which eliminated a hanging, laying on the floor, then rehangng process. The Can-Pack system is now employed in many plants in Canada, the U.S., and other countries and the principle is currently used in almost all large plants in the continent.⁶ Meat processing and packing is one of the leading sectors of Winnipeg's urban economy and the significance of innovation in strengthening its stature should not be underestimated.

Another Winnipeg anecdote illustrates the important Jacobian principle of import-replacement. The garment industry, a sector crucial to Winnipeg's export strength, was formed in the early 1900's as an import replacement business. Not until the 1970's, in response to local consumption not meeting factory output, did the garment industry turn to export markets.⁷

While Jacobs' theories are enhanced by being placed into a Winnipeg context, the theories of David Morris lose some validity when applied to the Winnipeg situation. Morris' theories were formulated in, and developed as a response to, the U.S. political climate. One example is Morris advocating the release of municipal bonds as a source of revenue. In Canada, the tax structure differs and municipal bonds offer comparatively less tax incentive than found in the U.S. Also the tax gradient in Canada dictates that persons and corporations in the higher tax brackets would benefit greater than others from municipal bond issues. This is but one detail of the way in which Morris' theories are far more applicable to the American situation than the Canadian.

On the other hand, there is an increasing interest in Canadian planning circles in the work of David Morris and the Institute for Local Self-Reliance. Wismer and Pell, in a study of Self-Reliance and community economic development presented to an Ontario Community Development Society conference, focus their study largely on sources of funding to be found in the Canadian situation.⁸ It is interesting to note that they attribute the concept of self-reliance to surviving experiments in collective enterprise and self-sufficient community development which began in the late 1960's and early 1970's.⁹ This accounts for the Self-Reliance tendency to discourse on motherhood issues since that decade was characterized by a political optimism that contrasts with the current conservative mood. Growing Canadian interest in the concept of self-reliance is evident in the agenda for the upcoming 1985 conference of the Canadian Institute of Planners on the theme of Sustainable Community.¹⁰ The sustainable community has much in common with self-

reliance and two of the founders of the Institute for Local Self-Reliance, David Morris and Karl Heiss, are listed as participating speakers.

It is not that Jane Jacobs, currently a Toronto resident, was more cognizant of the Canadian context at the time she wrote The Economy of Cities than is Morris. It is simply that her approach is more international in perspective. She has carried this tendency further in her latest work, Cities and the Wealth of Nations. This work maintains her original economic development theories only they are applied to European and other international cities as well as North American. She now cites Singapore, with its own Singapore dollar currency, as an anecdotal example of a municipal measure through which to control cash flow.¹¹ Although undoubtably a good idea that works for Singapore, the difficulty of instituting such a radical measure in the Winnipeg urban economy, which is one part of a national government system unified by a common currency, is insurmountable.

The issue of context, then, is a significant consideration in prioritizing the lessons and strategic initiatives suggested by the theorists under review.

Considerations

The transition from a theory that observes and generalizes tendencies in the urban economy to a strategy to control and direct urban development initiatives has been facilitated, in this thesis, by a dialectical analysis based on a contrast between growth and analysis. A corresponding framework that compares and contrasts alternative theorists is considered specious and of little value in delineating the evolution of theory. Yet at this point, where some hard and fast recommendations must be gleamed

from the discussion, an effort must be made to establish criteria through which to prioritize comparative development initiatives. Of course, these recommendations have yet to be applied to a Winnipeg case study and that process should assist in determining which initiatives are most applicable.

Jacobs' theoretical approach is practical, and mechanistic. She treats tactics as if they were tools that can be used to mechanically adjust an economic system modelled after a reciprocating engine. Her contribution is to provide a "nuts and bolts" approach or a "how-to" of economic development. Morris' theory is more clearly delineated and is readily broken down into concepts, the most significant of which are the concept of local self-reliance and the concept of the city as tiny nation. Compared to Jacobs' "nuts and bolts" contribution, Morris provides an overall "blueprint for action". Morris' strength is in his conceptualizations while Jacobs is strong in details and techniques. As has already been discussed, Morris' theory presents problems when placed into a Winnipeg context. Also, Morris' strategic initiatives are often determined by a too optimistic expectation of social change. Much of his theory is predicated upon attitudinal changes in society that, admittedly for the best, may never come about. An example is the economic fact of shortages of raw materials, normally considered a detriment by economists. Morris describes this factor as a "force" shaping society and as an "opportunity" that brought about the concept of self-reliance, in effect making a virtue of a detriment. Yet other of Morris' concepts, such as the principle of subsidiary or "bottom-up organization", are solid and deserve full appreciation. But Morris' theories too often address motherhood issues and show an unbridled optimism and enthusiasm that should be judged accordingly.

Many of the concerns taken up by Jacobs and Morris overlap or reflect on each other. For example the differing strategic initiatives of "import-replacement" and "plugging the leaks" can be seen as complementary and Morris' concept appears to encompass import-replacement as a tactic within plugging the leaks. Jacobs' concept, however, is less vague than Morris' and recommends a precise course of action. On the other hand, Jacobs could be wrong. Import-replacement was tried out extensively as an economic development strategy for third world countries during the 1930's and proved a failure as a method that produced long term economic revival when the world trade markets revived, import became more attractive, and the import-replacement industries collapsed.¹² Yet comparing third world countries to urban metropolitan economies may be inappropriate, like apples to oranges. Jacobs could be correct. There is no empirical proof for either argument.

Theoretical conclusions gain significance when applied to economic development practice for the City of Winnipeg. The case has been made, through the maturing of theoretical approaches, for a coordinated economic development strategy over a theory that suggests guiding principles. The following eight recommendations are derived from all four levels of theory: economic base, Hans Blumenfeld, Jane Jacobs, and Self-Reliance. They are meant to be the most brief possible summation of the insights obtained from theory and are not a summary or review of the theories. They will be applied to the analytic and practical recommendations, which arise out of the case history, in order to indicate the direction for an alternative economic development strategy.

Recommendations

-An urban economic development strategy should have as its goal a condition of economic self-reliance. Self-reliance is defined as an equilibrium state between urban export earnings and the total outflow of economic resources from the entire urban community. Balance between inputs and outputs is maintained primarily by adjustment of consumer patterns until inputs allow for increases in standards of living.

-Long term economic planning would be based on a reciprocating model of the economy stressing the role of import replacement, a short term tactic, in generating export industry for the long run.

-The Municipality is the most efficacious governmental unit for instituting economic development strategies. Organization of a strategy could take place from the bottom up at the community level and be assisted by neighborhood inventories and community cash flow studies.

-Tactics fostering an economic revival are encouragement of and assistance to innovation, entrepreneurial initiative, and on-going research and development. Sources of funding should be available and should be allocated in a number of smaller loans rather than a few large loans.

-An adequate analysis of the role and value of the local service sector to the urban economy is an essential element of strategic planning and the full potential of this sector should be realized.

-A strategy must strengthen and promote the importance of the export sector to the urban economy.

-Traditional input-output analysis is an extremely useful tool for developing a comprehensive understanding of the urban balance of payments.

-Maximizing the multiplier effect is an important economic principle found in all urban development theories. The key to increasing the multiplier effect lies in maintaining the money within the circular flow of the urban economic system before money leaks out of the system.

Footnotes

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Chapter 8: Winnipeg's Economic Base

Introduction

This section examines analytic approaches to the Winnipeg urban economy. Special consideration is given to the McNeal, Hildebrand Economic Base Study as it is the most comprehensive investigation of the city's interindustry functions, current demographic and socio-economic trends, and a prognosis for the Winnipeg economy. This study is supplemented by a survey of the studies of other urban analysts including Drew McArton, Tony Kuz, Alan Artibise, Greg Mason, Ruben Bellan, George Nader, Earl Levin, Ed Rea, and David Stambrook, and by comparison of the Economic Base Study to similar analyses of and economic strategies for the cities of Edmonton, Halifax and Vancouver.

The purpose of this section is to evaluate analytic approaches to Winnipeg economic development, recommend a development strategy, and to identify potential areas for further research.

The Economic Base Study - Observations, Intentions and Recommendations

The Economic Base Study is a background technical report on Winnipeg's economic base prepared by the consulting group of McNeal, Hildebrand and Associates Ltd. of Vancouver, B.C. and commissioned by the Winnipeg Tri-Level Committee on Urban Affairs. The plan provides background information in preparation for Phase I of the Winnipeg Development Plan Review on Winnipeg's economic growth prospects for the twenty years following 1978. The purpose of the Economic Base Study was to provide a comprehensive review of the major opportunities and constraints operating throughout Winnipeg's past development, and to compare the city's growth experience with the national and provincial economies.¹

The specified objective of the consulting firm in carrying out the study was to provide the City of Winnipeg with a thorough understanding of its own economy and how that economy interrelates with the provincial and national economies. The intention was for the conclusions of the study to contribute to research and policy analysis in the following areas:

- 1) land use and transportation modeling
- 2) the potential for major changes to existing trends in the Winnipeg economy (i.e. energy cost and availability impacts)
- 3) the potential for change in the local economy brought about by federal and provincial policy changes.²

It is important to note the limitations in the powers of the City of Winnipeg which prevent it from playing an active role in shaping its own economic development. McNeal and Hildebrand's third intention specifically singles out policy changes by federal and provincial authorities as offering the only potential for economic change.

The consultant team's recommendations for the City of Winnipeg are:

- 1) the establishment of a long term industrial development plan³
- 2) a continuous update of the data bases for sectoral economic activity initially developed in the study, for the purpose of periodic re-evaluation of the City's industrial development strategy⁴
- 3) the establishment of a Manitoba Productivity Council to inquire into the reasons for low productivity performance in the manufacturing industries⁵
- 4) inclusion of energy conservation as an integral part of the City's economic development policies⁶
- 5) additional studies and assessments of industrial capacity, land-use utilization, origin/destination trip movements, and urban goods movements.⁵

Study Methodology

There are two distinct methodologies utilized by the McNeal Hildebrand team. The stated methodology is a scenario approach, using three model types:

- 1) quantitative models based on factual trend data
- 2) qualitative models describing future socio-economic developments
- 3) consensus-seeking models such as the DELPHI technique⁷

This three tiered methodology is shown diagrammatically as the following:

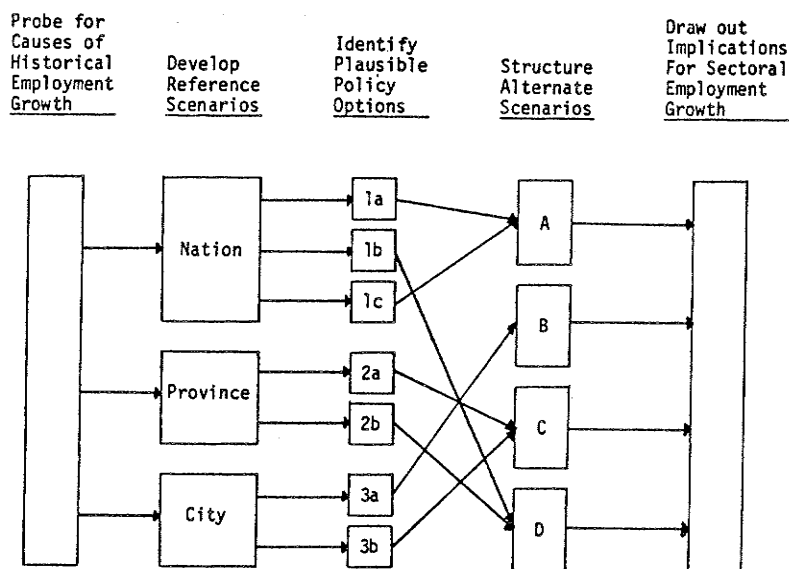


Figure 8: Methodology for Economic Base Study⁸

Three reference scenarios are developed for three different forecasts of employment and population growth, a high forecast, a low forecast and a median scenario.⁹

The incorporation of these scenarios into forecasts of growth and employment is cited by Mason as the study's greatest weakness in that the simulated numbers appear to be pulled from a black box.¹⁰ The resultant population projection in the three scenarios are subject to considerable error due to the mechanistic nature of demographic fore-

casting and to the speciousness of the exercise.¹¹ With the advantage of hindsight, Mason shows the predictions to be incorrect and their projection into the study target period constitutes an important error.¹⁰ Practical causes of the overestimates can be attributed to the scenarios being completed based on variations in the cost of energy¹² and the consultant team's choosing to assume no new government policies which would have either stimulated or decreased the rate of employment growth.¹³

The other methodology which underlies the Economic Base Study is econometrics. Commonly considered simply a compendium of methods, the derivation and application of computer program assisted statistical and mathematical procedures¹⁴ is so pervasive it constitutes a methodology. The Penguin Dictionary of Economics defines econometric studies as:

"Proceed(ing) by formulating a mathematical model. Then using the best data available, statistical methods are used to obtain estimates of the parameters in the model. Methods of statistical inference are then used to decide whether the hypothesis underlying the model can be rejected or not. Econometrics is thus concerned with testing the validity of economic theories, and providing the means of making quantitative predictions."¹⁵

The definition goes on to admit that, as opposed to the basic theory behind econometrics, applied econometrics may still appear rather abstract to the layman.¹⁶

A number of demographic and socio-economic trends such as the labour force participation rate¹⁷, are econometrically analyzed and compared but the main econometric techniques employed in the study are: location quotient, shift-share analysis, time-series correlation analysis, and the multiplier.

1) Location Quotient - An altered form of location quotient, the coefficient of localization calculated on the basis of value added,

measures the contribution of an industry in relation to the national average.¹⁸ The use of the term "contribution" is ambiguous. In the context of economic base theory, contribution should imply export earnings yet the study never does clarify this discrepancy. If export earnings is the case, then use of the coefficient of localization to analyze the contribution of the service industries to the provincial and municipal economies¹⁹ would be a statistical recognition of the basic support provided by this sector, but, because of the ambiguity of the terminology, the function of the coefficient remains unclear.

The location quotient, as found in the Economic Base Study, measures "the relative degree of specialization of Winnipeg's regional economy"²⁰ in terms of employment. "Specialization" as an indicator is applied as a comparison of individual industries' national performance with the location quotient's numerical value indicating the relative degree of specialization²¹ and as an estimate of the number of specialized jobs relative to total jobs in an industry.²² Again the terminology is vaguer than traditional economic base theory since economic base studies use location quotient, or variants thereof, to determine if a particular industry contributes to a city's basic wealth.²³

Although coefficients of localization and location quotients are calculated by different methods, they share the same mathematical qualities. At unity, or one, the measure is neutral and the industry in question is self-sufficient, neither contributing and specializing, which would be indicated by values over one, nor their alternatives recognized by values of less than one. The table of location quotients for thirty-two sectors of the Winnipeg economy²⁴ would serve as the best

indicator of which industries are importing and which exporting although the study has not identified this particular function.

2) Shift-Share Analysis - This method is defined in the Economic Base Study as "a descriptive mathematical technique which can significantly assist in pointing out areas where specific probing should be initiated to determine why certain sectors in a region are growing faster or slower relative to the nation".²⁵ The particular variant of shift-share analysis used in the study was developed by Edgar Dunn Jr. This variant assumes that a region's recent relative rate of growth is equal to the industry mix effect, defined as the regional mix of industries tending to grow at a rate faster or slower than the national average, and the competitive effect, defined as the rate of improvement or decline of a regions' internal supply advantages relative to the national average.²⁶ The ratio of industry mix effect to competitive effect for an individual industry provides a numerical representation of the net relative change for that industry and the ratio of the two variables points to the reason for that change.²⁷

3) Time-Series Correlation Analysis - This technique was used to determine causal relationships for assistance in projecting future sectoral employment and took the form of time series multiple regression analysis correlating one or various combinations of sixteen independent variables.²⁸ The findings show that high correlation coefficients were evident in all sectors except two, Construction and Transportation, Communication and Utilities.²⁹ Possibly these results were useful to the consultants in developing their alternate scenarios³⁰ but they had no immediate application in the study.

4) The Multiplier - An employment/income multiplier measured as the ratio of total employment change to sectorial employment change³¹ and used to gauge the effect of a policy change in one economic sector on Manitoba's personal income in another sector.³² The calculation utilizes the multiple regression analysis from the time series correlation³³ although the construction and transportation, communication and utilities sectors are eliminated due to unacceptable correlations.³⁴ The particular multiplier formula developed by the consultant team is:³⁵

$$M = \frac{(A_j E_j + \sum_{i \neq j} A_i B_{0,i})}{(\frac{1}{c} - \sum_{i \neq j} A_i B_{1,i})}$$

where E_i = Employment in each sector i

A_i = Average employment earnings per person per sector i

$B_{0,i}$ = Regression equation constant for sector i

$B_{1,i}$ = Regression equation for sector i

c = A constant ratio of employment income in Winnipeg to Manitoba's personal income

j = Another sector with a policy change

and M = Manitoba's personal income

The multiplier is included within the equation³⁶, although the concealed multiplier within this complex formula reveals the futility of the study's excessive delineation of their econometric techniques. Bellan, in Jobs For All, estimates the Winnipeg employment multiplier as ninety non-basic jobs created for every one hundred basic jobs³⁷ or a basic to non basic ratio of 1:0.9. This multiplier is direct, readily comprehended by the reader, easy to work with, and provides a clear estimate of the strategic potential of Winnipeg's productive capacity. Comparatively, the multiplier found in the Economic Base Study illustrates nothing about

the economic base and is needlessly complex. The concept of a multiplier can be relatively simple as Bellan's example shows. The additional complexity and mathematical intricacy of the McNeal and Hildebrand multiplier is a mystification.

What is methodologically more objectionable than the mystification factor in McNeal and Hildebrand's presentation of the multiplier is the sweeping generalization they make that the manufacturing sector contains "higher-order multiplier effects" along with its export potential.³⁸ No economist would dispute the export potential of the manufacturing sector but, why the multiplier effect of export or basic support generated in the manufacturing sector would be of a "higher-order" than the multiplier effect of basic earnings from other sectors, is not established. Stambrook, in his study of Winnipeg's service sector, maintains that there are standard multiplier effects arising from service sector growth which impacts on the goods producing sector by raising the demand for all goods.³⁹ Services, like goods, can be exported and, in fact, the capital investment behind services is usually less than the cost of manufactured goods, the value added in terms of labour is often greater for services, and transportation costs are insubstantial.⁴⁰ This would point to a "higher-level" multiplier effect for the service sector. Such a statement, though, is to make a sweeping generalization similar to McNeal and Hildebrand. Simply stated, a dollar earned in export is a dollar earned; the basic support is the same no matter which sector generates the earning, whether it is the primary sector such as agricultural exports, the manufacturing sector, or the service sector.

As to the econometric techniques employed by McNeal and Hildebrand, there is one technique left out. They state that they would have liked to derive their multipliers from an interindustry input-output model but that no suitable model was available.⁴¹ This is unfortunate as a set of input-output statistics could have illuminated the interactions of the Winnipeg economy.

The value of the Economic Base Study is that it is a systematic and coordinated attempt to develop an information base for long term economic planning.⁴² Although some of the techniques are questionable, most specifically the multiplier, and others unavailable (input-output analysis), the authors have provided a complete set of location quotients by industry,⁴³ a shift-share analysis⁴⁴, and numerous demographic and socio-economic trends. The foundation has been laid for a comprehensive and coordinated data base for long-term economic planning.

Economic Base Concept

The title of the McNeal, Hildebrand report, the Economic Base Study, would seem to place it under the rubric of economic base theory but the report deviates dramatically from the basic precepts of that theory. Instead of the classic basic/non-basic division of economic activity, the consultants categorized the local economy into goods producing industries and services industries⁴⁵ or alternately into primary, secondary and tertiary industries⁴⁶ with goods producing industries making up a group of industries that corresponds to those classified as primary and secondary industries with the exclusion of the secondary industries of transport, storage, communication and utilities other than electric power being classified as service industries.⁴⁷ The division of the

economy into goods producing and service industries takes precedence over the division into primary, secondary, and tertiary since the latter is correlated to the former and not the other way around.

In many ways this alternative classification, goods producing and service industries, is more functional than basic and non-basic industries. It is a simple concept to group since it is based strictly on the industry's output. It avoids hair-splitting when classifying industries whose produce is divided between local and export consumption. On the other hand, it tells us little about the actual economic base of Winnipeg, that is where the money that supports the community comes from. Because of this discrepancy, the title of the report is misleading. Comparison to other reports that utilize the economic base concept will throw more light on the study's usage of economic base terminology.

Two studies of Canadian metropolitan areas that are firmly rooted in the economic base concept are The Economic Base of the Halifax Metropolitan Area by A. M. Sinclair published in 1961 and An Economic Base Survey for the Edmonton Metropolitan Area by the Edmonton District Planning Commission published in 1958. Unlike the Economic Base Study, these studies divide the economy into basic and non-basic activities, each clearly defined in the study introductions. The Sinclair study defines the Halifax economic base as "that part of the economy which produces goods, services and capital for sale to firms or individuals located outside the area"⁴⁸ while the EDPC study defines the Edmonton economic base as "those activities which contribute to the export activities of the community, serving non-local markets and therefore bring bringing income into the community".⁴⁹ These two statements of

principle can be contrasted to the lack of a statement of principles found in the Economic Base Study.

In the two studies offered for comparison, the analysis which follows from the statement of principle places individual industries or activities into one of the two categories, basic or non-basic, despite the fact that no industry is entirely basic in that its entire output is exported. According to Sinclair: "the economic base is taken to consist of the parts, as it were, of the various industries which produce for export".⁵⁰ The segment of the economy which produces for local consumption is not examined in either report, since the aim of each report is to analyze basic industries.⁵¹ In order to differentiate the contributions of the basic industries to their local economic base, each report develops a hierarchy of industries ranked in order according to the percentage of their output which contributes to the economic base.⁵² This ranking of industries in order of contribution presents the danger of giving undue emphasis to minor industries with a high export ratio. The Economic Base Study, with its back-up classification of industries into primary, secondary, tertiary categories avoids this pitfall. Its major classification of goods-producing and service industries is far simpler than basic and non-basic, but this simplicity and clarity is gained at the expense of not providing a clear picture of where monetary resources enter the Winnipeg economy and how these resources contribute to the non-basic or local servicing segment of the economy.

Another commonly found usage of the term "economic base" is to refer to the sum total of the resources in an urban economic system.⁵³

This usage characterizes studies which are descriptive not technical and are intended to contribute in an anecdotal manner, providing a feel for the urban area but no in-depth understanding of the workings of the economic system. Two such reports are Winnipeg, 1897-1974, Progress and Prospects by T. J. Kuz and the chapter on Winnipeg in Nader's Cities of Canada, Volume Two, both of which contain sections on the economic base of Winnipeg.

The Kuz study represents a transition between the two types of studies in that the editor, Kuz, shows a clear understanding of the economic base concept while the individual writers on the various industries do not. In his editorial comments, Kuz provides clear, concise definitions not only of economic base but of the stages of development of export industries and how they relate to the development of exports in Winnipeg.⁵⁴ Following this, the individual sectors of the Winnipeg economy are analyzed in terms of chronological development, each in isolation from the other segments of the economy.

Nader's usage of the term "economic base" is in its most general sense, referring to the entire economic complex of Winnipeg. He outlines three factors which make up Winnipeg's economic base: its role as a transportation centre, its entire manufacturing sector, and the development of the service sector.⁵⁵

When compared to these four alternative studies, the Economic Base Study is situated in the centre. On one hand, compared to the more traditional economic base reports of Halifax and Edmonton, the Economic Base Study is not an economic base study. It simply uses that designa-

tion, then ignores the concept with the benefit of clarity and simplicity but at the expense of not providing the reader with a technical understanding of Winnipeg's exogenous sector. On the other hand, the Economic Base Study, when compared to Kuz and Nader, does clearly abandon the economic base concept and does not throw the term about pretending to provide information that it actually does not. In terms of the economic base concept, this study is a compromise, neither adhering to the formal rigidity of the classic concept nor pretentiously using the term with disregard to literal meaning.

Theoretical Premise

Although the Economic Base Study does not utilize the traditional economic base conceptualization of basic and non-basic sectors but rather of goods producing and service industries or primary, secondary, and tertiary industries framework, the theoretical premise of economic base remains, i.e. emphasis on aggregate growth rather than economic development. The issue of growth, in terms of measurement of stimulation of, lack thereof, and prediction of is a recurrent theme throughout the study.

This is not to say that the issue of development is completely ignored. In an interview with one of Winnipeg's financial leaders, the consultant team was made aware of the possibility of placing more emphasis on the "quality" rather than "quantity" of the City's industrial base. This would require a social component to the study which the consultants reject on the basis of previous studies which they describe as "inconclusive and sharply critical of the available material"⁵⁶ although indicating that "Winnipeg offered a better than average quality of life".⁵⁷

Social indicators for Winnipeg are considered, by the consultants, to be personal and emotional biases which, apart from promotional initiatives, will respond marginally to municipal policy and programs.⁵⁸ The question of "livability" of the community is most significant in relation to the developer who gains by a positive association and as a factor attracting in-migration.⁵⁹

The issue of productivity in the manufacturing sector can be viewed, although the consultants do not identify it as such, as a side effect of quality of life since it bears a direct relationship to labour quality. In this case, the statistics reveal a disturbing discrepancy in the Winnipeg social hierarchy. In the manufacturing sector, output per worker should be eight percent above the national average on the basis of the amount of capital output per worker provided, but is reduced eighteen percent below national levels by management, technology, and other factors.⁶⁰ With productivity below the national average, the competitiveness of Manitoba's manufacturing industries depends on correspondingly lower wage levels, some nine percent below the national average.⁶¹ This, coupled with the fact that, "next to Vancouver, Winnipeg is one of Canada's most expensive cities to live in"⁶² presents a bleak picture of the Winnipeg labour market. Yet the consultants recommend that the availability of a highly productive and cost-effective labour force would offer substantial comparative advantage for future expansion of the manufacturing sector.⁶³ Since labour is not at fault, and in fact contributes to local productivity, it can be concluded that a higher quality of life, or livability factor, might contribute to attracting, or

preventing out-migration of, capable management personnel and highly skilled technocrats necessary for greater productivity.

A clearer knowledge of the emphasis on growth in the Winnipeg Development Plan Review can be garnered by reviewing the issue as found in Urban Financial Analysis by Drew McArton, a supplement to the Economic Base Study. McArton examines the cost-revenue effects of urban growth in Winnipeg with attention paid to the effects of growth on future trends in the mill rate. The mill rate is calculated by determining the expenditures for the city budget, subtracting any city revenues, then dividing this amount to be raised by the total appraised taxable property assessment, producing the mill rate in terms of how much tax is due per dollar of assessed value.⁶⁴ McArton measures growth in three forms, employment, population, and housing, based on the projections found in the Economic Base Study. The net tax benefits to the city of an increase in each of these three variables varies with each new job contributing (under 1978 conditions) \$287.38, each new house contributing \$19.17, and each new citizen costing \$159.39.⁶⁵ Economic development, which McArton does not consider, is a function of increases in employment while aggregate growth is the sum of employment, population, and housing. McArton's findings are summarized in the following chart illustrating the effect on the mill rate of growth.⁶⁶ The top line with the highest mill rate values, hence the highest cost to property owners in Winnipeg, represents the hypothetical situation of holding employment growth, the most indicative measure of economic development, to zero. The bottom line, with the lowest millrate and lowest tax responsibility, represents no population growth pointing to the advantage of the non-growth or slow growth option.

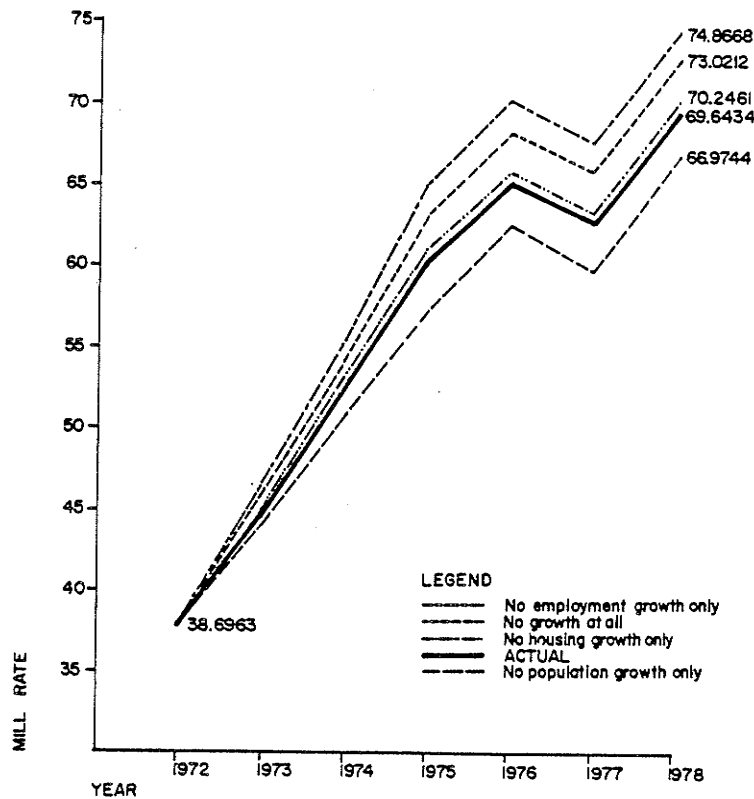


Figure 9: The Effect of Growth of the Mill Rate

McArton is not the only urban analyst whose findings can be interpreted to uphold the principle of economic development over aggregate growth. Bellan, in Jobs for All, investigated the hypothetical possibility of creating full employment in Winnipeg through government applied stimulating measures offsetting seasonal and technological unemployment as well as worker inadequacy and lack of job availability.⁶⁷ This research was based on the premise that "it costs nearly as much to keep people in idleness as it does to provide them with work; the true cost of a government measure which gives people jobs is not the money paid out to them in wages, but the margin by which these wages exceed the payments made to them for being idle".⁶⁸ Among the findings of the report are

the indications that public bodies would realize substantial financial benefits⁶⁹ and that crime and delinquency would be greatly reduced.⁷⁰ Both findings clearly place the report in the development over growth camp and show definite concern for quality of life. It can only be regretted that such a program was not instituted twenty years ago when it was first proposed.

Import and Export

Although Manitoba's export sales are reasonably well documented, no comparable statistics exist to indicate how much capital leaves the Winnipeg region to pay for imports and where the import dollars are going. A rough approximation of which sectors are importing can be made by examining the location quotients and coefficients of localization as calculated in the Economic Base Study, but this technique is inadequate when compared to the extensive documentation of export sales. Further, the lack of import information is a serious hindrance to economic analysts attempting to gain a comprehensive view of the Winnipeg economy and its interindustry relationships. The consultant team which produced the Economic Base Study noted that, for them to estimate the spillover effect of changes in employment growth in one sector in relation to the other sectors, they required an input-output analysis which, in the case of Winnipeg, was not available.⁷¹ They did not go into any detail as to why an input-output analysis has never been conducted for Winnipeg, but it is safe to assume that lack of availability of import information would constitute a major impediment. On the practical level the difficulties of instituting import-replacement as a policy goal without adequate import information is obvious.

Import and export are like two sides of the same coin. Mr. Hugh Lowery, vice-president of Standard Knitting Mills Ltd. a Winnipeg-based exporting firm, in commenting on the effect of the devalued dollar on export sales, stated that the export benefits were short term in that a low dollar value aided in selling existing inventories to the United States market but that these benefits were soon lost in purchasing raw materials on the international market,⁷² although the local value-added portion sells for less on world markets as a result of a devalued dollar.

The export situation in Winnipeg has remained quite stable over the past thirty years. Based on 1954 statistics,⁷³ the export sector of the economy was shown, in one financial report, to be quite diversified with manufacturing accounting for fifty percent of the province's basic income while agriculture-related industries accounted for thirty-three percent and the extractive industries sixteen percent.⁷⁴ Winnipeg's primary market for exports, at the time, was Alberta, Saskatchewan, rural Manitoba, and northwest Ontario.⁷⁵ In 1978, the Economic Base Study estimates that, although agriculture has ceased to play a significant role in the overall growth of the economy,⁷⁶ exports of manufacturing shipments in 1974 accounted for \$2,279,700,000 into the province⁷⁷ with about fifty percent sold within the province, 11.7 percent going to Ontario, 6.0 percent to Alberta and 5.5 percent to Saskatchewan.⁷⁸ The major manufacturing contributors to the basic sector of the economy were machinery industries which produce 33.4 percent of total exports, transport equipment exporting 29.8 percent of the total, and chemicals and allied products exporting 20.7 percent of the total.⁷⁹

Recent statistics on export show that, in the manufacturing sector, 48 percent of goods produced in Manitoba are exported within Canada and 10 percent are exported internationally.⁸⁰ According to Manitoba Business Magazine, the total value of Manitoba's exports for the first six months of 1982 was \$601, 205,000.⁸¹ This figure may be misleading as it is based on "province of lading" which refers to the last point in Canada from which the product was exported, rather than location of actual manufacture.⁸² The Winnipeg Business Development Corporation estimates that Winnipeg exported \$3,714,500,000 worth of manufacturing products in 1982, showing a growth rate of 3.3 percent over 1981, the lowest growth rate since 1977.⁸³ The breakdown, by industry of this exporting total is as follows:

food and beverage	\$1,071,500,000
clothing	267,400,000
wood	55,400,000
printing and publishing	219,800,000
metal fabricating	307,900,000
electrical products	185,500,000
non-metallic minerals	85,800,000
chemicals	73,500,000
miscellaneous	37,800,000
other major groups.	1,409,900,000 ⁸⁴

In conclusion, Winnipeg maintains a highly diversified manufacturing sector with a stable, steadily growing, and well documented export base. Comparable documentation on imports does not exist and this represents a major hindrance to comprehensive understanding of the economy and to developing an import replacement strategy.

Role of the Service Sector

Hans Blumenfeld's analysis assigns to the service sector the pivotal role in an urbanization process whereby the city evolves into the modern metropolis. He concludes that the service sector rather than the export sector, is the basic sector of the urban economy and contrasts his analysis directly to economic base analysis. As is to be expected of a study formulated on the principles of economic base, the Economic Base Study upholds the primacy of goods-producing industries over service industries in the focus of their analysis although it does note a trend toward a major increase in the relative importance of the service industries.⁸⁵ The consultants' theoretical bias towards the goods-producing industries is summed up in their statement on the role of the service sector: "A major part of the service industry in any economy is usually dependent for its existence on more basic supporting industries... Nevertheless, some service industries provide services to outside areas and thus provide the same kind of basic support as any other export industry".⁷⁹ Using the coefficients of localization, they show major basic support is provided by the industries of storage, transport, wholesale trade, miscellaneous services, local government, finance insurance and real estate, and communications while minor basic support is provided by amusement and recreation, retail trade, health and welfare, provincial government, and accommodation and food.⁸⁶ This list runs practically the entire gamut of the service sector indicating that the sector as a whole provides a great deal of basic support to the Winnipeg economy and thus warrants deeper analysis than it is given. Mason states that the Economic Base Study provides a nebulous basis for economic planning due to its weakness in forecasting the structural changes found in the prospects for new technologies and expansion in the service sector.⁸⁷

Part of the confusion surrounding the service sector lies in the nature of the product. Stanback defines the sector in terms of its relation to the goods producing sector which results in a material product that is typically storable and transportable while production of services results in an output that is not storable and usually requires direct interaction with the customer.⁸⁸ Stambrook notes a change in this trend with the increase of knowledge based service industries, such as computer technology, which has a product that is storable and transferable.⁸⁹ Another reason for inadequate recognition of the service industries is their location in the production system. For example, input-output analysis of the American economy shows that more than a fourth of all intermediate outputs, that is outputs of firms that are purchased by other firms as inputs for further production, are producer services which cannot be identified unambiguously by use of standard industrial classifications.⁹⁶

The trend in the Manitoba economy over the past twenty years has been toward overall growth in the service sector with a percentage increase of 93 percent in service sector employment between 1961 and 1980 as compared to 62 percent total employment and, in terms of output, the percentage of Manitoba Real Domestic Product accounted for by the service sector increasing from 69.0 percent in 1961 to 70.9 percent in 1980.⁹¹ It is safe to assume that the majority of this growth in the service sector took place in the Winnipeg urban economy since the service sector is traditionally most developed in the metropolitan setting.

Stambrook's analysis of the service sector in Manitoba produced the following two diagrams relating service sector employment and output to

that of the goods producing sector.⁹² (see diagrams next page) Note that in employment the goods-producing sector shows the classic S curve growth cycle with a declining trend by 1980, while service sector employment has maintained positive values throughout. In terms of output the service sector shows a trend of positive values except during 1982 while the goods producing sector shows negative values during 1974, between 1977 and 1980, and from 1981 to present. These diagrams indicate that the service sector maintains a more stable growth pattern, continuous positive trends, and less cyclical fluctuations relative to the goods-producing sector.

Another area where the Economic Base Study underestimates the contribution of the service sector is productivity, identified by the study as a major problem in the Winnipeg economy. As previously discussed, the study pinpoints the causes of low productivity as management, technology, and other factors rather than worker related factors although competitiveness is maintained through lower wage levels.⁹³ These factors, management and technology, as well as the undefined other factors, can be interpreted as functions of the service sector. Stanback predicts that a period of vigorous rationalization lies immediately ahead as new managerial approaches to the organization of service firms and institutions coupled with new applications of technology are applied to the problem of productivity.⁹⁴ The solution of vigorous rationalization through application of service sector skills to the problem of productivity in the manufacturing sector, is a far more definitive recommendation than that of the Economic Base Study's solution of establishing a council to study the matter.⁹⁵

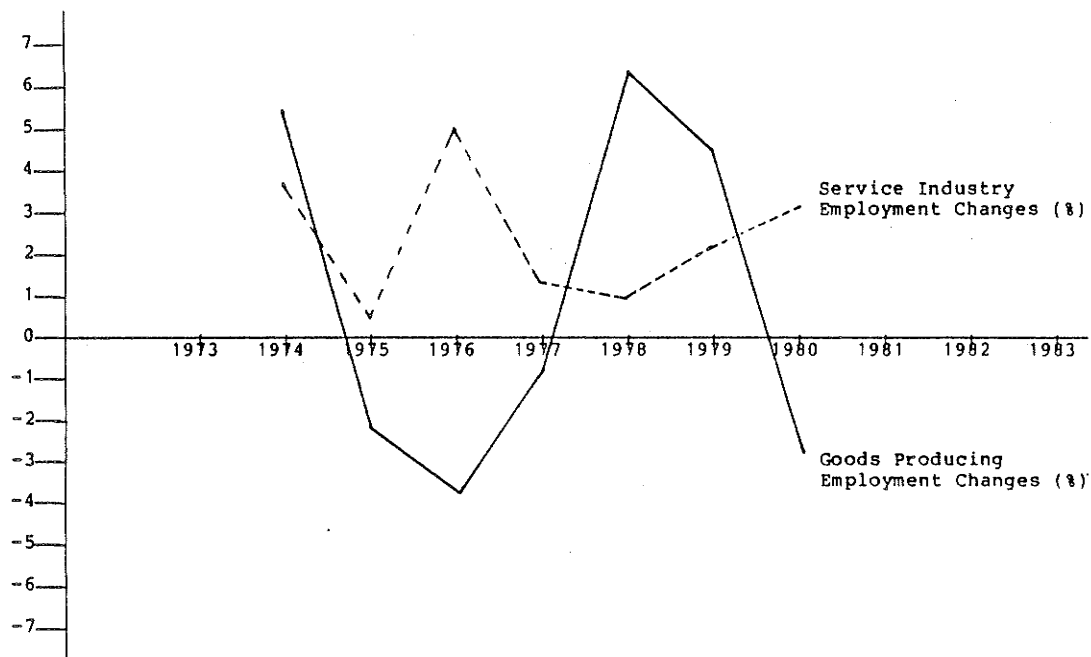


Figure 10: Comparison of employment changes (by percent) in Manitoba's economy by sectors

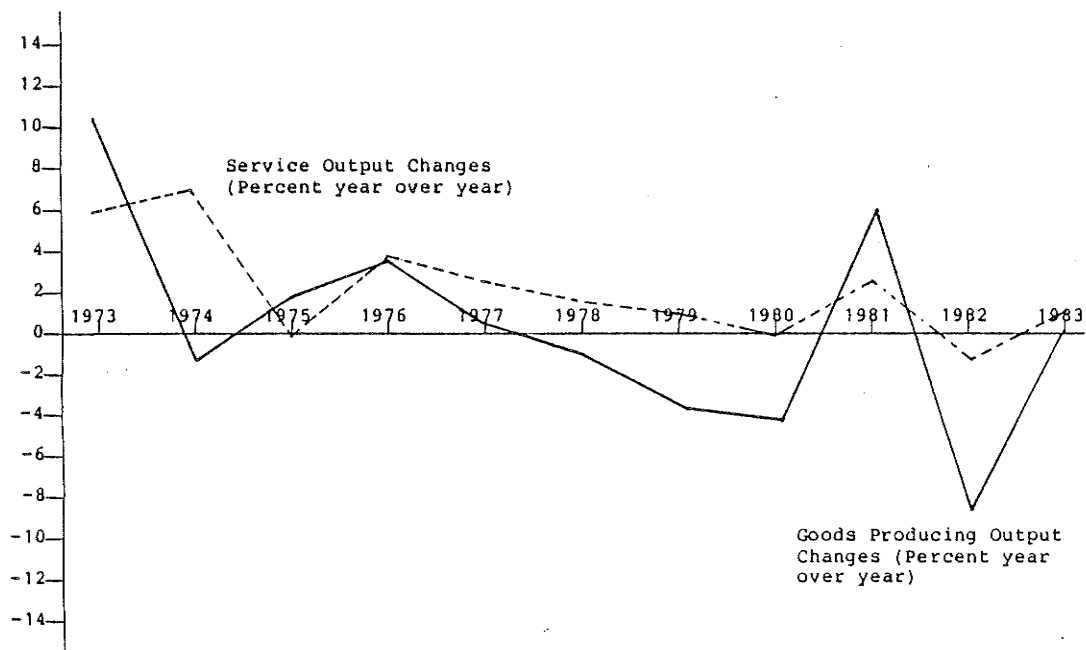


Figure 11: Comparison of changes in output (by percent) in Manitoba's economy by sectors

Another indication of the Economic Base Study's underestimation of the importance of the service sector can be gained by comparison with Vancouver's economic development strategy. The Vancouver Economic Advisory Commission recommends a program to promote Vancouver's "invisible exports" which include business services, engineering services, shipping services, re-insurance, health services, educational services, communications, financial services, and tourism services.⁹⁶ This program represents a major portion of the strategic initiatives of Vancouver's economic development plan. The concept of invisible exports gives adequate recognition to the contribution of the service industries.

Although the statistics indicate overall growth in the service sector, Winnipeg has far to go before it is able to match the development that has taken place in Vancouver and other North American urban centres. Two examples which illustrate this conclusion are engineering services and business services. Stambrook discovered a reluctance on the part of local manufacturers to hire engineering consultants for production and product engineering. When outside consultants were utilized, they had to be brought in from outside the province because the type of service was not locally available.⁹⁷ The other specialized service, business services, is best illustrated by examining the origin of the Economic Base Study itself. By 1957, for a business analysis to be carried out, a consultant firm from Chicago was employed.⁹⁸ By 1978, the situation had altered somewhat. A consultant team from Vancouver, with its policy of promoting invisible exports,⁹⁹ possessed the ability to carry out an in-depth study. A local consultant, Drew McArton, was employed to carry out a shorter study for the Winnipeg Development Plan Review. By 1984, it is hoped

that the local expertise has developed to the point where in-house studies, that is, studies of the local economy by local consultants, are possible. A positive indication of this trend is that in 1983, a critical evaluation of the Economic Base Study and other data sources was carried out by the recently formed Institute for Social and Economic Research based in Winnipeg.

The Impact of Slow Growth

The impact of slow growth on Winnipeg economic development is a subject inadequately treated by the Economic Base Study. Slow growth of employment in the manufacturing sector relative to national employment levels is attributed to industry-related factors and is not because Winnipeg or Manitoba is a relatively slow growth region.¹⁰⁰ The consultants point out that if growth had matched national levels this would have created 17,114 additional jobs in that sector by 1976.¹⁰¹ The industry-related factor behind the slow growth situation in manufacturing is analyzed as a poor mix of manufacturing industries, a situation that the consultants feel has been remedied since 1969.¹⁰² Slow growth in population is attributed to out-migration caused by poor income earning opportunities.¹⁰³

Mason, by comparing the population growth curve up to 1981 to the forecasts made by the Winnipeg Development Plan Review, showed that the population projections for Winnipeg have erred on the high side.¹⁰⁴

Examining this error, he states

"In 1981, the annual population for Winnipeg was 570,820, compared to a low projection of 581,400. The high projection of 596,700 is in error by some 4.5%. Over a five year period this is not particularly serious, however when carried into the future, there is obvious potential for important error."¹⁰⁵

By not giving adequate recognition to the impact of slow growth, the authors of the Economic Base Study and the development plan review process are not cognizant of some major structural changes taking place in the Winnipeg economy. Levin has outlined these structural changes, which are:

- 1) An increase in the problem of municipal finances with municipalities having to adjust their programs within the limits of a fairly static property tax resource.¹⁰⁶
- 2) A move within the planning authority away from a concern for the immediate supply of serviced land toward a longer-term concern for issues of conservation, ecology, social, and economic issues. In essence this means a move away from administrative, service-oriented authority to a governmental, policy-oriented type of authority.¹⁰⁷
- 3) The planning function becoming more program specific and taking on a strategy advisory role.¹⁰⁸

Levin believes the planning function and the function of government to be inseparable and that, with a shift in the issues as a result of slow growth, these functions will change significantly.¹⁰⁹ By not adequately taking these changes into consideration, the Economic Base Study, which is concerned with forecasting, has placed itself in a static framework relative to the structural dynamics of the economy.

Development of a Data Base

One of the major recommendations of the Economic Base Study is found under the heading of Monitoring Economic Activity and suggests an annual update of the information base for sectorial economic activity and periodic re-evaluation of the City's industrial development strategy.¹¹⁰

Mason concurs with this recommendation and takes it somewhat further calling the traditional data sources "woefully inadequate".¹¹¹

Mason's recommendations, which are far more ambitious than those of the Economic Base Study's are as follows:

- 1) more accessibility to the Manitoba Health Commission files¹¹²
- 2) more detailed demographic information¹¹³ such as the age/sex structure¹¹⁴ and the changing ethnic basis¹¹⁵ for Winnipeg
- 3) expanding the corporate income tax forms to include information on the purchase of inputs and the destination of outputs.¹¹⁶
This information could provide the beginnings of the input-output analysis for Winnipeg which is sadly lacking.¹¹⁷
- 4) information on the installation of business telephones¹¹⁸
- 5) an annual or bi-annual survey of business.¹¹⁹

Mason concludes that, if economic planning is to shed its speculative nature, organizations such as the Winnipeg Business Development Corporation and the Chamber of Commerce must take data collection more seriously.¹²⁰

A significant component of the development of a Winnipeg data base for economic analysis is the utilization of computer-assisted techniques. In 1981, the Manitoba computer service sector possessed the highest concentration of processing services in Canada.¹²¹ Yet in 1978, interpretation of the Economic Council of Canada's CANDIDE econometric model,¹²² application of the SPSS (Statistical Program for the Social Sciences) computer program to carry out step-wise multiple regression¹²³, and the DELPHI technique¹²⁴ of seeking consensus were carried out by the Vancouver based consultant firm of McNeal, Hildebrand. At that time, Drew McArton was in possession of the ORACLE computer program¹²⁵ and was able to

utilize this program for input into the Development Plan Review process. With the development of Winnipeg's computer based service sector, the accumulation and interpretation of a data base could be carried out in-house, eventually exporting this business service to other urban centres.

Historical Development

A historical approach to Winnipeg's economic development is one technique used to disclose long term economic trends and provide a clear formulation for forecasting. McNeal and Hildebrand begin their analysis with this approach.¹²⁶ Their view is that rapid development of Winnipeg was generated by sustained agricultural growth, and that ancillary market, financing and service facilities developed around this basic industry.¹²⁷ This view is an oversimplification. Winnipeg was the centre of the grain trade but its role was to provide transportation and financial services for that trade so that the service industries provided the engine that generated economic growth although staple export commodities, initially the fur trade then agriculture, were the determining location factors. Stambrook emphasizes the key role of the service industries in the development of the City of Winnipeg.¹²⁸

Other historians have emphasized different factors in explaining the development of Winnipeg. Rea places emphasis on the conflict between labour and the ruling elite, geographically defined by north and south Winnipeg, giving precedence to the social and political factors that shaped the urban economy.¹²⁹ Artibise outlines the boom and bust cycles tempered by an ongoing campaign of boosterism conducted by the commercial elite.¹³⁰ These cycles were the result of national and international trade patterns. Artibise concludes that "without fundamental

changes in the national economy of the country, Winnipeg's future is more or less predetermined by its position in the world economy.¹³¹ Kuz analyzes the city's development using a stages of growth technique and he delineates the following steps:

- 1) export specialization - domination by a single industry or firm
- 2) stage of export complex - a broadening of the local economy where horizontal and vertical integration occurs
- 3) economic maturation - import replacement and expansion of business and services
- 4) regional metropolis - city as a node connecting and controlling neighboring cities.¹³²

Each different approach, development of services, social and political trends, business cycles in relation to the national economy, local boosterism, and stages of growth is of value in understanding the historical development of the Winnipeg economy. Artibise's discussion is clearly the most thorough of the examples presented.

Summary

The Economic Base Study has served as the core which centres the discussion of how analytic approaches have affected the theory behind the economic development strategy implied in Winnipeg's case study. The McNeal and Hildebrand document was chosen because it is the most comprehensive and covers most, at the least touches on all, of the issues economic development must take into consideration. The investigation revealed that McNeal and Hildebrand could be taken to task for not adhering to the traditional growth concepts of economic base, the extreme of this tendency being their disappointing variant of the multiplier

which could have been a very useful normative measure. Their forays into alternative approaches produced some interesting asides such as the discussion on the causes and results of low productivity. McNeal and Hildebrand were strongest where they showed mastery over the traditional tools of economic base theory, such as their shift-share analysis, use of the location quotient and variants, demographic and socio-economic statistics, and their sectorial breakdown of the economy. The recognition shown to the lack of an input-output analysis is significant. The theoretical framework they were working with meant that predictably this would give inadequate recognition to the service sector. David Stambrook's study stands as the perfect supplement to McNeal and Hildebrand as an assessment of the Winnipeg service sector, while Levin provided an update of the effects of slow growth.

Ideas of local self-reliance and import-replacement brought McNeal and Hildebrand's out-of-province stature under scrutiny. This, and indications of a trend of Winnipeg economic analysts to utilize computers and programs to store and sort data, suggested a closer look at Winnipeg economists possessing these capabilities. Greg Mason and Drew McArton demonstrated more than adequate ability compared to the McNeal and Hildebrand standard.

Recommendations

The four most significant recommendations that derive from the review of the analytical literature on Winnipeg's economic development are as follows:

- An economic development strategy would promote policies aimed at strengthening the economy's service sector and,

where sufficient proficiency existed, the strategy would promote exportation of these services to other urban centres.

- An economic development strategy would give adequate recognition to the slow growth situation and promote policies aimed at meeting the pressure of structural changes to civic politics and the planning functions caused by slow growth. Slow growth should be recognized as an opportunity to promote development of the quality of life rather than as a constraint on aggregate growth.
- The establishment of an ongoing, in-house data base as a resource for long-term economic development decisions to be established either by creating a local agency or utilizing existing Winnipeg-based individuals and firms possessing mandates and the expertise to direct data gathering procedures.
- Conducting a comprehensive input-output analysis of the interindustry relations of the Winnipeg economy.

Footnotes

1. McNeal, Hildebrand and Associates, Economic Base Study, cover letter dated August 24, 1978.
2. Ibid., p. 1.
3. Ibid., p. xvi.
4. Ibid., p. xvii.
5. Ibid., p. xviii.
6. Ibid.
7. Ibid., p. 515.
8. Ibid., p. 152.
9. Ibid., p. 161.
10. Mason G., "Data Sources for Long Term Planning of the Winnipeg Economy: A Critical Evaluation", p. 12.
11. Ibid., p. 6.
12. Ibid., p. 12.
13. McNeal, Hildebrand and Associates, op.cit., p. 166.
14. For a discussion of programs and computer techniques see, Economic Base Study, p. 111 & 118.
15. Bannock, G. et.al., The Penguin Dictionary of Economics, p. 142.
16. Ibid., p. 143.
17. McNeal, Hildebrand and Associates, op.cit., p. 55.
18. Ibid., p. 24.
19. Ibid., p. 31.
20. Ibid., p. 103.
21. Ibid., p. 105.
22. Ibid., p. 109.
23. See Sinclair, A.M. The Economic Base of the Halifax Metropolitan Area, p. 7 and Edmonton District Planning Commission, An Economic Base Survey for the Edmonton Metropolitan Area, p. 3.

24. McNeal, Hildebrand and Associates, op.cit., p. 197.
25. Ibid., p. 110.
26. Kruekenberg, D.A. and Silvers, A.L., p. 418.
27. McNeal, Hildebrand and Associates, op.cit., p. 114.
28. Ibid., p. 117.
29. Ibid., p. 118.
30. Ibid., p. 120.
31. Ibid., p. 174.
32. Ibid., p. 173.
33. Ibid., p. 172.
34. Ibid., p. 173.
35. Ibid.
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Chapter 9: Practical Considerations

Introduction

This section examines ongoing initiatives pertaining to Winnipeg's economic development. This involves a review of on-stream projects and inputs from each level of government and the private sector. A survey of the trade magazines, newspapers, government publications and documents, and personal interviews provided the information necessary to evaluate the current state of economic development. Special attention has been applied to organizations with the potential to facilitate Winnipeg's economic development initiatives. At this point it was also considered relevant to include some comparative case studies in order to ascertain whether techniques that were successful in neighbouring metropolitan centres would be applicable to the Winnipeg situation.

The Municipal Authority

A reoccurant theme throughout the analytic literature is the lack of a significant role that Winnipeg plays in shaping its own economic destiny. One major reason for this is that the current economic climate is dominated by national and international economies. McArton laments the "depressingly trivial extent to which the city has any real power to resist the effects of major external forces on the tax rate", and "the total helplessness of the municipal authorities in the face of inflation".¹ This inability to counteract downward trends in the national economy is further hampered by problems of jurisdiction. The BNA Act provides for two levels of government, federal and provincial, and, under section 92 of the Act, the provinces are given the authority to create municipalities and municipal institutions. In effect, municipalities are creatures of the province.²

In countering out-migration, the Economic Base Study assigns to the Winnipeg municipal government three levels of policy-making by which it can effect positive change. Directly, the municipal government can promote policies which enhance the attractiveness and livability of the city. Less directly, municipal policy can effect economic attractiveness through influencing the cost of housing, taxation levels and the like. Indirectly, a municipal policy in support of economic development can assist in the creation of job opportunity.³ McNeal and Hildebrand do not elaborate on why an economic development policy is an indirect stimulus while attractiveness and livability are direct stimuli.

Levin foresees a change in the role of the municipality as a result of the effect of slow growth. Characterizing the City's present role as that of an administration rather than a government, i.e. a house-keeper or deliverer of services rather than a maker and implementer of policy,⁴ Levin goes on to predict a change in the planning function, which is inseparable from the function of government⁵ into the realm of more broadly-based policy issues.⁶ One profound effect of this change at City Hall would be, because a policy-oriented government requires a parliamentary type of structure, the introduction of party politics at the municipal level.⁷ It is important to repeat that these structural changes, if Levin is correct, will come about as a consequence of slow growth and not as the result of the assessment of economic change by the administrators at City Hall.

Klaus Thiessen, Marketing Development Officer with the Winnipeg Business Development Corporation, characterized the City's current state of economic development strategy as "the City has no economic

development policy".⁸ When asked to comment on Mr. Thiessen's statement, William Muir, planner at the City's Department of Environmental Planning, felt that the statement was not entirely true. "Our policy", stated Mr. Muir, "is to assist or promote industry through the provision of fully-serviced industrial property at cost".⁹ Mr. Muir emphasized the City's fairly narrow jurisdiction with its focus on physical development and noted that, currently, the power to carry out economic development is in the hands of the provincial government.¹⁰

Federal Government Assistance

The McNeal, Hildebrand Economic Base Study identifies the Federal Government's Department of Regional Economic Expansion (DREE) programs as the most significant government programs involving direct financial assistance to industries in Manitoba. Within the DREE framework, McNeal and Hildebrand single out the Regional Development Incentives Act (RDIA) programs as the most relevant from the standpoint of industrial development.¹¹ They evaluate DREE's role within the regional economy as providing stability but creating no real incremental growth because "DREE assistance does not make viable that which is not already viable". One DREE program that applies specifically to Manitoba is the Regional Development Subsidies program which offers incentives to business and industry in designated slow-growth regions.¹²

Recent DREE grants to industries and manufacturers in Winnipeg are

1. Export Packers Co. Ltd. received \$400,000 towards purchase of \$1.3 million worth of specialized equipment used to extract from liquid egg whites an enzyme used to treat viral and bacterial infections.
2. CJYP Holdings Ltd. and Intergraphic Decal Ltd. received \$400,000 for an addition to their present plant.

3. Base Ten of Canada Ltd. received \$250,000 to establish an electronics manufacturing plant.
4. A grant to Imperial Cabinet (1980) Co. Ltd. to purchase automated woodworking machines.
5. A grant to H. & K. Packers Co. Ltd. towards construction of a new pork processing facility.
6. A grant to Winpak Ltd. towards an addition on to their vacuum packing packaging film plant.
7. A Grant to Westland Steel Products Ltd. toward construction of a specialty fasteners manufacturing facility.¹³

DREE also has a program to promote Canadian export sales, the Program for Export Market Development (PEMD). PEMD provides contribution to individual business of up to fifty percent of the costs incurred in breaking into new markets although contributions are repayable if sales are achieved.¹⁴ The Federal Government further assists in export promotion by providing the Trade Commissioner Service with a network of eighty-nine offices in sixty-five countries.¹⁵ Klaus Thiessen, Marketing Development Officer for the Winnipeg Business Development Corporation, emphasized the value of the trade commissioners to him when he is abroad promoting Winnipeg export products and the value of the Canadian Counsulates in promoting Winnipeg as a centre for industrial location. Although the Trade Commissioner Service and PEMD are the mainstays for anyone involved in exporting,¹⁶ there are a host of other services and programs available. For example, in 1982, the regional office of Industry, Trade and Commerce handled fifteen incoming Trade missions to Manitoba.¹⁷

Federal government programs change with different budgets and with governments. Some federal programs currently available which could aid in economic development for Winnipeg are: the Local Economic Development Assistance program under Employment and Immigration Canada,¹⁸ Small Business Investment Grants under Minister of State for Small Business and Tourism,¹⁹ and the Enterprise Development Program under the department of Industry, Trade and Commerce.²⁰ More permanent fixtures than the changing government programs are the Federal Business Development Bank and the Business Information Centre, both of which offer assistance to small business. The Federal Business Development Bank (FBDB) offer management counselling,²¹ and a special program aimed at small business, the Counselling Assistance to Small Enterprises program.²² The Business Information Centre is located in Ottawa but maintains a regional branch in Winnipeg. It serves as a central point of contact for business people seeking information about the entire range of business-oriented federal programs and services.²³

Although federal initiatives are centred on the DREE programs, there are a diverse number of federal programs and institutions which provide a back-up role in Winnipeg's economic development. A recent example is the creation of forty new civil service jobs when the federal government located the headquarters for its new agency to aid Canadian Native economic development in Winnipeg to co-ordinate the \$345 million Native Economic Development Fund.²⁴

The Role of the Provincial Government

The Provincial Government's economic development strategy is contained within the Manitoba Jobs Fund program. To date, this program

has gone through one phase and has now entered the second phase. Phase one was implemented in 1983 with the creation of the Manitoba Jobs Fund. Its focus was on the creation of jobs to lessen the employment crisis through the allocation of \$200 million for the Fund.²⁵ The second phase continues those initiatives but with emphasis placed on programs that lead to a broader expansion of Manitoba's economic foundation and which result in more permanent growth.²⁶ The Jobs Fund has identified twelve sectors in which it will act as a catalyst to develop long-term stability and growth. These twelve sectors are:

1. agriculture
2. energy/hydro
3. small business
4. technology
5. transportation
6. co-operative development
7. community assets
8. forestry
9. housing/urban development
10. provincial capital assets
11. youth/job opportunities
12. development agreements.²⁷

Investment by the province in these twelve key sectors is grouped into three broad categories. The breakdown of the \$91.2 million budgetary allocation for the 1984-85 fiscal year includes:

- \$35.4 million for business development
- \$20.1 million for housing, urban development and human resources
- \$35.7 million for community and capital assets

A further \$118.8 million has been allocated for 1984-85 in non-budgetary or "Loan-Act" authority, making a total of \$210 million budgeted by the Provincial Government for the Jobs Fund.²⁸

Mr. G. A. Fullerton, Executive Director of Economic Development Coordination in the Department of Industry, Trade and Technology and formerly of Imperial Oil Ltd., described the institutional structure behind the Jobs Fund program. The main committee is the Economic Resources Investment Committee (ERIC) chaired by Mr. Eugene Kostyra, Minister for Industry, Trade and Technology, and made up of the ministers for Business Development and Tourism, Agriculture, Natural Resources, Energy and Mines, Finance, Employment, Security and Economic Services, Labour, and the Deputy Premier as well as the Minister of Industry, Trade and Technology represented by Mr. Kostyra.²⁹ ERIC combines the efforts of the two major departments concerned with economic development: Industry, Trade and Technology and Business Development and Tourism.

Reporting directly to ERIC and Mr. Kostyra is the Manitoba Economic Advisory Council, chaired by Mr. Sam Uskiw, the Minister of Business Development and Tourism, and composed of six members such from the executive committees of leading business associations and labour unions.³⁰ The Economic Advisory Council, then, is a forum designed to combine the input from leaders of business, labour, and government.³¹ The Council has twenty members: six from business organizations such as the Winnipeg Chamber of Commerce, the Manitoba Chamber of Commerce, the Canadian Manufacturers Association and three specific groups representing the textile, construction and agricultural industries; six members representing labour appointed by the Manitoba Federation of Labour; and eight

members of government, four cabinet ministers representing the political arm of government and four deputy ministers representing the beaurocratic or administrative arm of government.³² The Economic Advisory Council has set up three sub-committees to investigate specific areas of concern. These are the Agenda Committee, the Economic Advisory Committee, and the Economic Conference Committee.³³

Two examples of initiatives contributed to by the Manitoba Jobs Fund are a \$3.5 million grant to the University of Manitoba towards construction of the \$11.4 million Earth Science Building and a \$450,000 grant to Winnipeg's Western Canada Aviation Museum towards purchase of new facilities at the International Airport formally occupied by CAE Aircraft Ltd.³⁴ Another Jobs Fund initiative that was successful during 1983 was the provinces Venture Capital Program meant to encourage the flow of equity capital into Manitoba small business. The initial one million committed to eleven venture capital companies during 1983 has been expanded to four million during 1982 and up to \$35 million for the next five years.³⁵

A confirmation of the success of the Jobs Fund economic development strategy is the resurgence of the Manitoba Economy during 1984. The trend toward out-migration has been reversed with ten thousand new Manitobans over 1983. The unemployment rate has fallen to 7.5 percent from the 9.8 percent in 1983.³⁶ Manufacturing has experienced an 8.8 percent growth surge in production of manufactured goods during 1983 and non-farm production has risen 4.3 percent.³⁷ Three new initiatives already on board that could spell further economic resurgence for the province are: negotiations for large export power sales to the Western

Area Power Administration of Golden Colorado and to two groups of utilities in Minnesota and Wisconsin which would result in resumed construction of the Nelson River hydro-electric development formally the engine of the provincial economic growth from 1966 to 1977, negotiations with the Aluminum Company of Pittsburgh for the construction of a \$700 million smelter located in the province, and feasibility studies undertaken with Canamax Resources Inc. of Toronto for the opening of a \$500 million potash mine in the Russell-Binscarth area of western Manitoba.³⁸

The province assists in export promotion through the Manitoba Trading Corporation, the successor to the Manitoba Export Corporation. The Corporation operates with \$500,000 working capital which enables it to carry out export business transactions and to finance exports on a short-term basis. The Corporation is administered by the Trade Branch of the Department of Business Development and Tourism.³⁹

The problem of having initiatives in economic development centred at the provincial level is that provincial policies can, at times, conflict with municipal concerns. William Muir, Planner with the City's Department of Environmental Planning, cited specifically the Provincial Government's "stay option" meant to encourage industrial development in rural areas.⁴⁰ If the municipal government had as highly developed an economic development strategy as does the provincial government, then it too would be maximizing the rewards of an upsurge in the region's economy.

Bi-Level and Tri-Level Agreements

Some of the initiatives that pertain to issues of economic development in Winnipeg are co-operative ventures sponsored by two levels of

government, federal and provincial, or three levels of government, federal, provincial, and municipal.

The ten-year Economic and Regional Development Agreement (ERDA), signed in November 1983, commits the provincial and federal governments to co-ordinating their economic development planning and programming in Manitoba and to undertaking several major initiatives through a series of subsidiary agreements.⁴¹ The ERDA is the successor to the previous ten-year Canada-Manitoba General Development Agreement (GDA)⁴² which operated locally as Enterprise Manitoba. Enterprise Manitoba has provided financial and other forms of support to six regional development programs operating in the province.⁴³ Enterprise Manitoba has singled out for special attention six priority industrial sectors operating in Winnipeg. These six sectors are:

1. Food Products
2. Health Care Projects
3. Light Machinery
4. Electronics and Electrical Products
5. Aerospace
6. Transportation Equipment.⁴⁴

It is estimated that over the first five years of ERDA's ten year term, combined expenditures will exceed \$400 million.⁴⁵

Another bi-level program is the Employment Development Initiative funded jointly by the federal New Employment Expansion and Development (NEED) program and the provincial government. Under this agreement, \$22 million is aimed at providing jobs for those who have exhausted their Unemployment Insurance or are receiving social welfare.⁴⁶

The Core Area Initiatives program is the most successful example of a tri-level agreement. Signed in September, 1981, each level of government, federal, provincial, and municipal, contributed \$32 million toward mutually approved projects in Winnipeg. The \$96 million is divided between three phases of activity: \$37 million spent improving job opportunities, upgrading housing, and social services; \$54 million spent developing key areas for industrial, commercial and recreational purposes; and \$5 million for management of the program over its five year term.⁴⁷ One of the key recreational sites, the CN East Yards slated for a \$7.2 million redevelopment under Core Area Initiatives, will be further enhanced under the \$13 million federal-provincial Agreement on Recreation and Conservation (ARC) which will spend \$3,642,000 on development of the junction of the Red and the Assiniboine, located within the East Yards site.⁴⁸

Research and Development

A major portion of any economic development strategy is an ongoing program of research and development (R & D). Statistics Canada and Revenue Canada define R & D as:

"...systematic investigation carried out in the natural and engineering sciences by means of experiment or analysis to achieve a scientific or commercial advance. Research is original investigation undertaken on a systematic basis to gain new knowledge; development is the application of research findings, or other scientific knowledge, for the creation of new or significantly improved products or processes."⁴⁹

David Stambrook, in his analysis of Manitoba's service sector, noted the relationship between R & D and growth of the service sector and a trend in Manitoba, along with the growth of the service sector, toward more applied R & D. Stambrook states: "recent interest in the role of R & D and technologic a change in the economy has shifted some emphasis

away from supporting physical capital investment towards creative activities which comprise a part of the producer service sector".⁵⁰ McNeal and Hildebrand note a "relative lack of applied research in the province and the city" and note that what R & D there is confined to small programs within individual facilities at the universities and within the larger firms.⁵¹

All R & D carried out at the University of Manitoba is co-ordinated by the university's on-campus office of Research Administration.⁵² All funding is derived entirely from outside sources, from foundations, agencies, government and industries.⁵³ Two of the research facilities on campus are the Industrial Applications of Microelectronics Centre, and the High Voltage Direct Current Research Centre.⁵⁴

Government funded R & D is carried out under the auspices of the Manitoba Research Council and the National Research Council. Two programs jointly funded by these agencies under the Enterprise Manitoba agreement (now ERDA) are the Industrial Technology Centre and the Canada Food Products Centre.⁵⁵ The Industrial Technology Centre is comprised of two R & D divisions, the Mechanical Engineering Division and the Metallurgy and Material Science Division.⁵⁶ Industrial R & D, often with government financing assistance, is carried out mainly in the aerospace and farm equipment sectors. Leaders in local aerospace R & D are Bristol Aerospace and Boeing of Canada, Winnipeg Division, while Versatile Farm Equipment and Co-op Implements lead R & D in the farm equipment sector.⁵⁷

This brief list of centres on ongoing R & D confirms the McNeal and Hildebrand analysis, that activity is confined mainly to the univer-

sities and the larger industrial firms. If Winnipeg is to strengthen its long-term economic prospects, then a concerted effort at expanding R & D is necessary. This is not to say that Winnipeg researchers must become leaders in developing innovative new ideas. In the microelectronics industry, for example, the government's original idea of creating another Silicon Valley here in Manitoba has been replaced with the concept of adapting existing innovations to new, practical uses, i.e. not original research as such but applied research.⁵⁸ Research and development offers long-term economic advantage through adapting new technologies for local application.

The newest addition to R & D in Manitoba will be the Institute for Manufacturing Technology, a \$41 million centre occupying one-half of the proposed Science Place Canada on the former St. Paul's College site at Balmoral Street and Ellice Avenue in Winnipeg. The project is financed by the National Research Council. Science Place Canada is intended to serve as a "high-tech" think tank, a catalyst for technological growth.⁵⁹

The Role of the Private Sector

Small business is the backbone of Winnipeg's and Manitoba's economies. Firms which make up Manitoba's small business sector are smaller than the Canadian average and getting smaller. In sales, Manitoba's small business sector is growing at a faster clip than the rest of Canada. An Economic Council of Canada study showed that 80 percent of all manufacturing firms in Manitoba and 94 percent of all Manitoba's firms are defined as small business compared to Canadian overall statistics which show that, in Canada, 78 percent of manufacturing firms and 93 percent of all firms are defined as small business. In Manitoba, 1974 statistics

show that firms with fewer than twenty-five employees accounted for \$260 worth of sales, or 28.4 percent of the manufacturing sector, while, by 1979, sales almost doubled to \$507 million and the smallest businesses were generating 36.2 percent of manufacturing business. The data also suggests that, in Manitoba, small business are more important in producing jobs than elsewhere. They produced 20 percent of jobs in manufacturing as compared to 14.2 percent for Canada as a whole.⁶⁰

Big business also has a role to play in encouraging the economic development of Winnipeg. Recent developments sponsored by big business have been the completions of the Cargill Building and the Great West Life Corporation headquarters both in downtown Winnipeg and ongoing construction of Air Canada's nine-storey computer centre on a North Portage site designated for re-development under the Core Area Initiatives program.⁶¹

Winnipeg Business Development Corporation

The Winnipeg Business Development Corporation (WBDC) is a small team of specialists providing advice and assistance to expanding local companies and to new companies seeking Winnipeg locations.⁶² The WBDC's annual operating budget is \$350,000⁶³ funded ninety percent by the City and ten percent by the Winnipeg Chamber of Commerce.⁶⁴ The organizational structure of the WBDC is unique in that, although it receives the majority funding from the City, the WBDC is not a City department. The WBDC's policy is dictated by a twenty member Board of Directors comprised primarily of private industry executives, although Board members are also selected from two levels of government (provincial and municipal) and organized labour.⁶⁵

The WBDC's two main objectives are:

1. to promote the city externally
2. to initiate activities that will ultimately benefit the Winnipeg community in market and facility expansion.⁶⁶

The external promotion side covers the broad field of public relations.

The three types of external promotion provided by the WBDC are:

1. promotion abroad - such as attending foreign trade fairs
2. information dissemination - placing advertisements in selected publications and providing information about Winnipeg to firms intending to expand or relocate
3. "hand-holding" - making arrangements for out of town company representatives.⁶⁷

An example of the second objective, providing a forum, is the Micro-electronics Committee, formed by the WBDC, which was the catalyst in the formation of the Electronics Industry Association of Manitoba (EIAM). EIAM presently has over eighty members representing fifty companies.⁶⁸

The WBDC is organized on a committee structure. The committees are considered by the WBDC to be an integral part of the co-operative effort necessary for successful economic development and promotion of the city.⁶⁹ The organization of the committee structure with the WBDC is explained diagrammatically in the chart (see following page).

The staff of the WBDC is made up of General Manager Ted George, Development Marketing Officer Klaus Thiessen, Business Development Officer Linder Bremner, an administrative assistant, and a secretary.

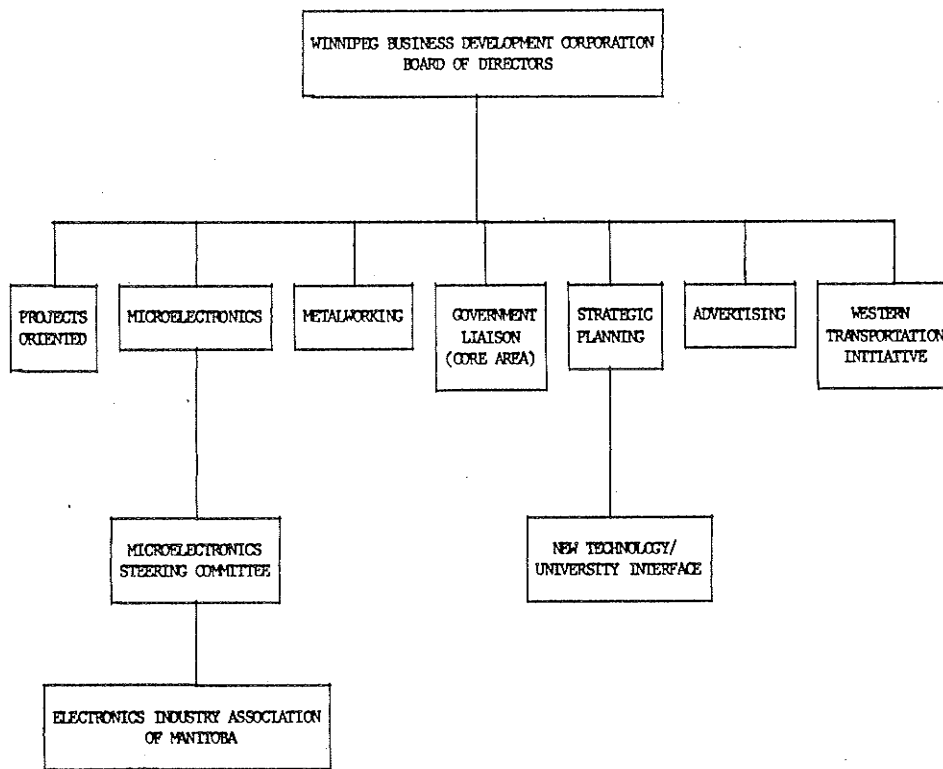


Figure 12: WBDC volunteer committees organization chart.⁷⁰

The Federation of Canadian Municipalities

The Federation of Canadian Municipalities (FCM) is a membership organization with the goal of enhancing the position of local government in the Canadian federal system. FCM has over 200 municipal members plus most of the country's provincial and territorial municipal associations.⁷¹ Part of FCM's mandate is to counter the perception that municipal officials can do little to enhance economic development for the following three reasons:

"...because municipalities are responsible for providing the infrastructure that supports economic activity, and for creating communities with a quality of life that attracts investments, they play a central role in generating economic growth;

...because municipal governments are the ones that most closely affect people's daily lives, they have the capacity to identify specific economic challenges and opportunities most readily, and the resources to meet these challenges advantageously;

...because of the immediacy of the municipal presence, municipal governments have a unique ability to develop consensus and mobilize action, in other words, to muster community spirit."⁷²

FCM publishes a monthly newsletter, Forum, and a series of special studies.⁷³ Cost of membership is six cents per capita with a minimum of \$350.⁷⁴

Comparative Case Studies: Vancouver and Minneapolis

Two cities that Winnipeg can look to as models of economic development are Vancouver and Minneapolis-St. Paul. Vancouver is an excellent example of a western-Canadian metropolitan centre with a progressive approach to economic development. Minneapolis-St. Paul is considered a model northern, aging city, is the closest metropolitan centre to Winnipeg, and has historical trade ties with Winnipeg dating back to the 1820's.⁷⁵

In 1978, Vancouver began work on an economic development strategy for the 1980's by establishing an Economic Development Office. The Economic Development Office undertook surveys of business requirements for space and personnel, and of the business community's perceptions of the city's future, taxes, labour, and other related matter. In phase two of their strategy, the Economic Development Office provided this background material to the Vancouver Economic Advisory Council, a body comprised of twenty representatives of Vancouver's academic, business, labour, government, and consulting community. This commission ultimately presented the City Council with the strategy for economic development in Vancouver over the 80's.⁷⁶

The actual strategy in itself is not especially remarkable. In brief, they suggested that Vancouver emphasize its viability as a business communications centre linking North America and the Pacific Rim, that the city be promoted as an international finance centre, that tourism be encouraged, and that Vancouver should build on the economic strengths it already possesses.⁷⁷ What is remarkable is the backup work and materials behind these suggestions. Vancouver now has a comprehensive and realistic basis for the initiatives it intends to pursue. More important, as a result of the process that elicited the strategy, Vancouver has the support of its business, academic, and labour sectors for proceeding with the strategy.⁷⁸ More recently, Edmonton established an Economic Development Authority based on the Vancouver model.⁷⁹

The City of St. Paul, Minnesota has a Department of Planning and Economic Development with five internal divisions: Community Development, Housing, Business Revitalization, Development and Planning.⁸⁰ The key to Minneapolis-St. Paul's success at economic development, though, lies more with its business community than with its municipal authority. William G. Ouchi analyzed Minneapolis' economy and noted some of the following points. Firstly Minneapolis is comprised largely of a locally run economy with half of its manufacturing workers being employed by locally based firms and, of the other half, ninety percent of these worked for manufacturing firms originally founded in Minneapolis but subsequently sold to outsiders.⁸¹ Secondly he found that corporate giving was far higher in Minneapolis than anywhere else in the United States. In 1981, sixty-two local firms gave five percent of their pretax profits to charity, and twenty-one firms gave two percent of their pretax profits to charity,

creating the Five Percent Club and the Two Percent Club respectively. The United States average of corporate giving is between 0.66 percent and 0.75 percent of pretax earnings. In the state of Minnesota, corporate giving averages fifty percent above the national average.⁸²

Ouchi's explanation for Minneapolis' high level of corporate civic responsibility is the web of relationships that brings together the business, civic, political, and other sectors in close contact. This web of relationships is the result of contacts taking place in committees, councils, and other private groups organized by concerned citizens such as the Downtown Council, the Minnesota Association of Commerce and Industry, the Minnesota Business Partnership, the Citizen's League, the Minneapolis Project on Corporate Responsibility, and the Greater Minneapolis Chamber of Commerce.⁸³ It is this mechanism, a network of associations, study groups, and committees, that transforms narrow self-interest into a balanced state of cooperation among independent individuals, according to Ouchi.⁸⁴ In other words, what Ouchi recommends and what Minneapolis attests to is networking, the gathering together of mutual interest groups to pursue common goals at regular, structured meetings.

Ouchi concludes his analysis of Minneapolis with following advice as how to develop a similar atmosphere of partnership:

1. Identify those key business leaders who have a sense of commitment to the community and to its future in a broad sense. It may be that only two or three such people can be found but two or three are enough.
2. Have these leaders structure an educational process, bring in outside experts and thoughtful observers, in order to stimulate interest.

3. Create a small staff of one or two people and launch several small projects for the purpose of identifying new people for leadership roles.

4. The business group should take the initiative in learning about government and how to effectively present their views in government.

5. Create a network linking together the many special interest groups and have them commit to paper their shared vision of what that community can become.⁸⁵

Both examples, Vancouver with its institutionalized planning process and Minneapolis with its less formal approach, can serve as inspiration to Winnipeg in the formation of an economic development strategy.

Summary

The critical issue suggested by the practical considerations is that of jurisdiction, where should the responsibility for economic development lie. Both theory and practice indicate that small business is the engine or motor of the economy. The role of government is to facilitate the private sector and Winnipeg's municipal government has shown itself to be more than adept in this role. Higher levels of government intervene in the workings of private enterprise more than the municipal level does in exchange for the facilitating function. The municipal government, although it maintains a weaker tax base than do the federal and provincial levels, is the ideal level from which to promote Winnipeg economic development. Part of this promotion would be assisting private enterprise to apply and qualify for federal and provincial funding.

The institutions, out of which a strategic economic development organization can be constructed, already exist. Nothing needs to be created. The problems are with jurisdiction and, at the bottom line, funding. The Winnipeg Business Development Corporation is perfectly situated between private enterprise and the municipal corporation yet it is poorly funded and given limited responsibility. The province, with its regional concerns, has an elaborate economic development structure with even a Winnipeg Economic Development Advisory Committee dominated by provincial representation. The Federation of Canadian Municipalities, and other available national institutions, provide a link with other centres experiencing similar situations and so a "communications network" which would aid in countering the tendencies toward parochialism and rivalry.

Manitoba's, and Winnipeg's, economies are, at the time of this writing, in an upswing. The provincial government's economic development strategy can receive most of the credit for this dramatic turn around, which has yet to be proven in the long term. Comparative economic development strategies can be a valuable short cut to defining a Winnipeg strategy. Because of its current success and its overlapping jurisdiction, the provincial government's economic development strategy warrants special attention. Also, with this in mind, the Minneapolis and Vancouver comparative case histories gain particular significance.

Recommendations

The seven most significant recommendations that derive from the review of practical considerations of Winnipeg's economic development are as follows:

- Immediately institute a process through which the City of Winnipeg creates a municipal economic development strategy in order to direct municipal economic policy.

- Strengthen the municipal planning authority so that it will be capable of acting on an economic development strategy.

- Strengthen existing private institutions to encourage a program of networking among representatives of the private sector, government, labour, and academia.

- Utilize existing federal and provincial programs and funding wherever possible.

- Further analysis of the Provincial Government's successful economic development strategy in order to determine which elements are directly transferable to a municipal economic development strategy and how the two strategies may intermesh and conflict.

- Promote ongoing research and development.

- Recognize the significance of the contribution of small business and develop policies to promote small business in Winnipeg.

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Chapter 10: Conclusions

Discussion

Indications for an alternative economic development strategy for the City of Winnipeg derive directly from the summaries and recommendations of the preceding three chapters. The strategy is presented in the form of a scenario. It is definitely not the only possible scenario nor is there any guarantee that adoption of this scenario would immediately revamp Winnipeg's economic development situation. It is, though, the optimal course of events distilled from a range of options and variations on possible outcomes.

The scenario was arrived at through the process of empirical investigation followed in the preceding nine chapters and a measure of intuitive judgment based on familiarity with the subject matter. This decision-making process is exemplified in the difficult choice of assigning to the municipality the responsibility for determining and implementing an economic development strategy. The theory, Jacobs and Morris, is clear that this is the correct level of government for that responsibility. The limits of its jurisdiction makes the municipality the ideal government body to accept this responsibility. Yet considerations of legislation and funding indicate the province as an alternative and it has been demonstrated that, in actuality, it is the province behind the majority of development initiatives. The federal government has the greatest tax base, and therefore, a higher degree of funding. But these two higher levels of government have conflicting concerns with the City of Winnipeg's priorities. On what basis, then, to make this difficult decision.

The main limitation to this decision is that, ultimately, it is the role of private enterprise to enhance the City of Winnipeg's economic development. The level of government best suited to facilitate this interest is the municipality. This observation is basically an intuitive one, since a researcher of a more interventionist bent would argue the opposite, the funding rather than jurisdiction is the overriding consideration. The resultant decision, that the municipality be assigned responsibility for defining and implementing an economic development strategy, is a combination of intuitive judgement and empirical research.

With this qualification, that the individual details were arrived at by scrutiny of the available options and that these details represent the optimal, but not the only, possible course of events, I offer the following scenario as an alternative economic development policy for the City of Winnipeg.

The Strategy

The responsibility for Winnipeg's economic development should be vested in the municipality under the authority of an expanded Winnipeg Business Development Corporation (WBDC) incorporating major portions of organizations whose jurisdiction overlaps into economic development. Examples of such organizations include the City's Department of Environmental Planning (DEP) and the province's Winnipeg Economic Development Advisory Council (WEDAC). The DEP would maintain its authority over building permits, land titles, and zoning divisions while the community organization and development plan initiatives would share a location with the WBDC. The province could maintain its own advisory council for the region with dual representation of key ministers on the municipally-

based WEDAC. The remainder of the WEDAC would be made up of the major or representative, the President of the Chamber of Commerce, and key representatives of business, labour, and academia. The WEDAC could function as the policy committee for the WBDC and, toward this end, the WEDAC could formalize a charter on which to base policy decisions founded on the principle of turning Winnipeg into a self-sustaining, i.e. not self-sufficient but self-reliant, metropolitan centre.

Based on this statement of principle, and most up-to-date assessment of Winnipeg's strengths and weaknesses, the WEDAC should propose a long-term development strategy, subject to periodic scrutiny, which is divided into two distinct phases. The first, an import-replacement phase would see all funding channeled into identifying sources of import and financing feasible replacement facilities. The second, a mixed import-replacement/export generating phase, would generalize funding allocation to all enterprise with export potential for the purpose of setting in motion a reciprocating import-replacement leading to exporting system. Implementation of this strategy and allocation and regulation of funding would be the responsibility of the full-time management staff of the WBDC. This management group would act as a liaison between the WEDAC and the Chamber of Commerce committee structure that currently is part of the WBDC. The management group would also be responsible for the community development structure.

Under the management group should be a data gathering and processing (DGP) division with a mandate to initiate an ongoing input-output analysis of the City of Winnipeg and to update the Economic Base Study's demographic, employment, and location quotient statistics and shift-share

analysis. The DGP division would originate community cash flow studies in order to identify key neighbourhoods to promote community development corporations. The DGP division could initially consist of local free-lance consultants and need never be located in the same offices as the WBDC; the necessary link could be provided by a computer hook up.

The WBDC must by necessity be funded by the City and special tax deductions should be provided to encourage corporate donations. It is in the provincial government's interest to promote Winnipeg's economy and funding for and cooperation with the WBDC is inherent in the relationship. All available federal and provincial funding should be obtained and utilized effectively. The WBDC could offer a service to qualifying businesses assisting in and promoting grant applications. Outlay of WBDC funds would be in the form of investment loans to individual and corporate entrepreneurs. Although a certain rate of loss on the loans would be assumed, the intention is that payments on the loans would eventually fund the WBDC.

The promotional work provided by the actual WBDC, before this theoretical expansion of responsibilities, would continue under a public relations division. The expanded WBDC would institute ongoing programs to study and report to the WEDAC for policy considerations on: identifying and training local entrepreneurs, promoting corporate relations with the WBDC, improving urban social and cultural conditions, potential energy conservation measurers, research and development, venture investment potential, and comparative cities' economic development strategies and initiatives.

The process of networking, or interaction amongst the business community with each other and with the public sector, which is meant to heighten civic awareness and responsibility, cannot be legislated or plotted over the long term. It is a process that must be played by ear with the responsible authority reacting to positive initiatives which foster communication sectors and between different sectors represented by members of the business community. A program of networking, or interaction, which promotes economic development potential, is an integral segment of this development strategy. This program must be ongoing and must build on existing initiatives. It may be as simple as providing free lunches for meetings of representatives of key sectors discussing common concerns or as providing awards or recognition for civic achievement. It may be more complex such as sponsoring seminars and conferences which bring together representatives of the business community. The details of this program will be determined after the organization to enact these initiatives is in place. What is important is that such a program is integral to the entire economic development strategy.

Conclusion

The urban economy is the foundation upon which rests the entire complex of infrastructures, legal, social, cultural, political, and physical, that constitutes the city or urban system. As such, an economic development strategy is the basic component of the city planning process. City planners, concerned with successful economic development, are at the forefront of urban evolution. Economics is fundamental to city planning.

The preceding economic development strategy is but one option among many courses of action. My research indicates that this would be the optimal strategy. Different methodologies and different ideological and theoretical orientations would produce different strategies. The only way to empirically prove a particular strategy successful, and more successful than others, is by application over the long run. The City of Winnipeg has the opportunity now for co-ordinated and co-operative action which would result in overall economic betterment of the entire Winnipeg urban economy.

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- William Muir. Co-ordinator, Winnipeg Development Plan Review. Department of Environmental Planning, City of Winnipeg, August 22, 1984.
- Klaus Thiessen. Marketing Development Officer, Winnipeg Business Development Corporation, August 21, 1984.