

## THE EXAMINATION OF THE INSTRUMENTS OF LOCAL ECONOMIC DEVELOPMENT, PARTICULARLY IN CONSIDERATION OF VIENNA

K. KOLLÁR

Széchenyi István University, Department of Regional Studies and Public Policy  
H-9026 Győr, Egyetem square 1. HUNGARY  
E-mail: kollark@sze.hu

The process of local economic development is extremely complex. Different authors diversely aggregate its concept, objectives and actors. According to the literature local economic development is an intervention to the functioning of the economy. Its purpose is to ensure sustainable local development and to increase the standard of living. The intervention requires the involvement of many actors, who approach the process from various sides. But the instruments, which are used by them, are very similar. In this paper I will make a short overview of the instruments of local economic development, then I will analyse the practice of Vienna.

**Keywords:** local economic development instrument, local economic development strategy, human resource development, direct service development, Economic Development Scheme of Vienna

### Introduction

As we examine the international and national literature we can see that the regulatory and organizational system of the countries are quite differentiated and diverse but in the case of economic development tools used by local actors the situation isn't the same, in fact they are very similar. Widespread economic development tools are for example tax exemption or tax benefits, the providing of domiciles, the development of infrastructure, the promotion of SMEs or training programmes. The installation of industrial parks, industrial zones and incubator houses are frequent as well. Obviously there are some very special instruments for economic development, but such exceptions are not usually found in Central and Eastern Europe but in countries outside Europe. For example the U.S. government has often used such lending practices; has provided such guarantees which in Central and Eastern Europe would not be feasible. Of course in the region there can also be such differences as a result of which the application of a certain instrument is not allowed in one country but proves to be the best practice in another one.

In our study, on the basis of the literature we examined, we look at the most popular and widely used tools grouped by the author dealing with the research of local economic development.

### *The local economic development instruments*

The local economic development strategies, which are defined by Blakely and Bradshaw, contain the following tools:

A community-based economic development strategy's tools are for example:

- the creation of local enterprise agencies
- the support of minorities and disadvantaged communities by providing loans
- the creation of community development bodies
- marketing activities

Tools belonging to a Business Development Strategy are:

- incubators, the establishment of enterprise zones
- the establishment of industrial parks and technology parks
- supporting R&D
- advisory centers supporting business activity
- the promotion of new businesses, entrepreneurs
- business information centers

Domicile development strategy among others includes the followings:

- infrastructure development
- tourism development
- the development of public services
- housing improvement
- industrial area formation, land expropriation
- the simplification of legislation
- the construction of shopping centres.

Human resource development strategy uses tools such as

- the providing of vocational training that meets the requirement of the enterprises
- the providing of training for disadvantaged and long-term unemployed
- programs for part-time and intermittent employees to facilitate permanent employment
- programs for school leavers to encourage employment
- vocational training meeting the sectors' needs
- the establishment of centres that register unemployed people and deal with labour market mediation. [1]

Linder and Peters distinguish four groups of local economic development tools, namely the tools of direct service development, exhortation, subvention and regulation.

Direct service development tools are for example:

- the improvement of drinking water supply
- the improvement of public safety
- the improvement of conditions for pedestrians
- road network development
- the improvement of parking facilities
- the improvement of sewage management system
- the ensuring and improvement of scavenging.

The tools of regulation are the followings:

- land expropriation
- the improvement of the formation system of industrial zones and residential zones
- the regulation of the streetscape
- the regulation of waste management
- the improvement of construction management system
- the appointment of an ombudsman to handle the occurring problems

The tools of exhortation include:

- the support of existing enterprises
- the visit of potential investors
- attendance at conferences and events
- database operation
- the publication of promotional publications

Subventions contain among others:

- the providing of tax exemption, tax credits/benefits
- land donation
- in-kind services
- the reduction of the rate of profit
- warranty for private investors
- providing direct loans and loan guarantees
- the funding of tax increase. [2]

On the basis of Alan Norton's research Mezei examined local development tools and practices applied by a few European, American and Asian countries. In his opinion the most commonly used instruments include:

- the ensuring of domiciles
- tax exemption, tax reduction
- the support for the establishment of industrial parks and industrial zones
- job creation
- the providing of preferential loans

- the encouragement of the establishment of new technologies
- the providing of guarantee
- the support and the facilitation of R&D activities
- the fostering of education, professional training. [3]

In his work wrote at the millennium McGuire made the following groups of economic development policy instruments:

*Table 1:* The classification of Economic Development policy Instruments [4]

Endogenous	Exhortation	Subsidy	Direct Provision
The rehabilitation of buildings	Visit to existing business	Tax abatement	The improvement of water-supply
Employee training/retraining	Attendance at conferences	The financing of tax increase	The improvement of sewage disposal
The development of export markets	Business roundtable	Direct loans	The improvement of public safety services

Source: Own compilation based on [4], p. 284.

In 2005 Capkova [5] studied local economic development practices in Central and Eastern European countries. In his study he distinguished five different groups of incentives. The categories are the followings:

- Financial tools  
One of the ways to support existing enterprises and to attract new investment projects, as we know, is to take financial incentives. Local tax credits, local tax exemptions, credits, loans and guarantees can be mentioned as such incentives. Property taxes in Central and Eastern European countries are more infrequent than they are in the English-speaking countries. In our region the most common forms of supports are the benefits in connection with local tax rates. However, this form of stimulation of economic development is restrained. Actually, if we consider any tool belonging to this group, we can say that their usage is usually limited due to the scarce budget of municipalities.
- Property-related tools  
The municipal property can also be used to support local businesses, but the use of this instrument also has a limit, which lies in the amount of available property. We can mention industrial parks, the formation of industrial zones and reduced rentals or sales as wealth-related instruments. Each tool is widely used to support newly settled enterprises. From the category of property-related tools in most Central and Eastern European countries local municipalities often establish industrial zones, business parks and business incubators. The latter one provides

wide range of business services and aims to support the development and growth of small enterprises. In addition, of course, it serves as a domicile for new businesses as well. In favour of new enterprises, municipalities can also act as guarantors for loans, but for them it has a reasonably high risk.

- **Marketing**  
Municipalities are forced by global competition and rapid changes in all areas of economy to use intense and increasing promotion in their target markets. These target markets include all the residents, visitors, enterprises and export markets. The promotion, also known as “place marketing”, is a widely used tool by municipalities for local economic development in the vast majority of countries.
- **Infrastructure development**  
Economic development certainly includes the provision of and support for the availability of infrastructure. The accepted view is that companies take three cost components into account when they decide about location: the costs of transportation, labour and energy. Municipalities play an active role so that the settlement can become more attractive to investors based on these criteria. The investment into physical infrastructure can appear as a reason for economic development and also as a consequence of it. Therefore it can be said that the availability and quality of traditional infrastructural services have become an essential criteria in the last few years. Their absence is a barrier for the growth of local businesses and hinders success in attracting investors. The importance of human capital investment shouldn't be neglected either, because this is one possible tool, which promotes economic development and generate spillover effects, which will increase the productivity of local labour force.
- **The providing of technical and information assistance**

Swinburn [6] divides local economic development practices and their approaches and instruments into three stages. The first period lasted from the mid-1960s to the early 1980s. At that time, the development actions focused on disadvantaged areas and relied primarily on resources from outside the region. The significant strategic directions contained the attraction of manufacturing companies and foreign capital and the deployment of the necessary physical infrastructure. Both in the funding and the implementation the public sector had a clear, emphatic role. From the tools of local economic development tax credits, subsidies, the ensuring of cheap domiciles and labour were the most popular ones.

The second stage of local economic development began in the early 1980s and lasted to the mid-1990s. In this phase the key strategic direction was to retain and grow existing businesses. External resources were still important, but the focus was no longer on attracting them, but on integrating them. The public sector remained typically dominant, but companies also joined to the financing of development. Local economic development instruments included the benefits and subventions mentioned in the first stage, but these targeted the large companies and small and medium-

sized enterprises. SMEs got a special attention, not just in the form of grants and benefits, but they also got specialized business development services. In relation to the infrastructure the soft components became more important than the hard ones, for example the entrepreneurial skills or the improvement of skilled workforce got bigger attention.

From the mid-1990s local economic development practices can be described with the followings:

*Table 2: The third stage of local economic development [6]*

Focus	Instruments
Key strategies:	-integrated local and regional development strategies
- To create favorable business environment	- focus on territorial not sectoral development
- To improve the quality of life and security	- the improvement of the skills of the workforce
Organization:	- the facilitation of clusters
- Partnerships led by the public sector	- the support of disadvantaged
Implementation:	- conflict management
- Partnership of public, private and community sectors	- programs aiming to increase the quality of life
Funding:	- tailored business development services
- The domination of public sector, but the contribution of the businesses and the civil sector increases	- strategic planning, SWOT

Source: Own compilation based on [6], p. 5.

As the table shows, in this period the public sector lost from its dominance and the businesses and civil sectors got a more important role. Moreover, the availability of European Union funds appeared besides domestic resources. The top-down approach was replaced by the bottom-up strategies. The local economic development approach focused on local business environment, the development of innovation potential and the retraining and attraction of skilled labour forces. The organization, implementation and funding of the development is based on the partnership of public, private and civil sectors. A significant public role, however, still remains. [6]

#### *Local economic development in Vienna*

The last development plan was discussed in 2005. This plan brings into focus the thinking and acting based on a European perspective. The plan is based on the following principles:

- sustainability
- participation
- gender mainstreaming and
- diversity.

The aims of the strategies are to reinforce Vienna's competitive position and to overcome the challenges. The city accounts for 28% of total added value generated in Austria and 23% of total number of workplaces. The level of economic development is the highest in Vienna among the other Austrian regions and holds leading position in Europe. Although in the past years the economic structural change caused decline in the number of the jobs in the secondary sector, the quality of economic activity has improved. The development in the last 20 years was very strong in sectors with low qualification requirement and high share of women and in the know-how intensive sectors.

Tourism plays a key role for the city. Vienna's share in total overnight stays in Austria is of 7%. Sales revenues and the overnight stays have developed dynamically.

The secondary sector is changing. We can see that in the consumer goods industry a downturn was revealed, but in the exporting industries, for example automobile and vehicle manufacturing, electronics or the chemical industry, there is a dynamic growth. The research and development plays an important role in the city, too. Significant amounts are spent on research and development by the universities, research organisations and enterprises alike.

The structure of labour market illustrates on the one hand a structural change and the economic and social problems of the economy on the other. That is:

- The level of unemployment is higher than in other parts of Austria.
- More than 75% are employed in the tertiary sector.
- The employment has been developing less expeditiously than in average in Austria. All the same, in female employment an increase could be experienced, because of the rising number of part-time jobs and the larger number of jobs in the tertiary sector.
- But the qualification levels of employees are higher in the city than the average of the country.

There are specific structures of enterprises in Vienna's economy. The majority of workplaces are given by small enterprises, which ensure the 35% of all jobs in the city. The significance of small and medium sized enterprises is very high. The municipality pays remarkable attention to the maintaining of these existing enterprises and to the support of their development.

The demand for urban planning is becoming wider and wider. The quality of living plays a significant role and has an impact on location decisions. The structure of Vienna's economy commands widespread variety of building and location types, too. Now urban planning has to be harmonized with project development, transport planning or for example with zoning.

The Economic Development Scheme includes the following elements:

- The development areas of great importance
- The determination of the city's Agricultural Structural Development Plan and
- Measures which assure the existing corporation structure

The local centers play decisive economic role in Vienna and certainly in the other cities, too. The City has important economic function and the municipality always makes an effort to retain and strengthen it. In reference to the retail trade the government and its measure aims to improve availability, to raise the demand and to revise the quality of the streets. But the shopping centers, the specialized markets and the ascendant competition take attenuative effect on the retail trade.

Vienna's development project brings into focus to develop the city, improve and preserve its attractive position. According to the Economic Development Scheme the development areas, which have strategic significance for the economy, are for example Siemens Allissen, Bahnhof Wien-Europa Mitte-Aspang-Erdberger Mais or Flugfeld Aspern. The municipality creates several master plans, urban settlement schemes, projects and presents services in connection with availability by excellent quality and high-capacity transport infrastructure. The infrastructure plan aims to improve accessibility and attractiveness. The Development Plan has formulated temporal and spatial priorities based on the infrastructural planning. According to the Development Scheme the development will also focus in the future primarily on those areas which are available by high-capacity public transport.

The Gründerzeit city is the other important part of Vienna. The city acts as feasible field for economic development. The aims of the development are to preserve existing activities and expand further the possibilities.

In addition the industrial and commercial areas are secured, because there are very important foundations of the urban economy. The production technology is intent on becoming less and less polluting to the environment.

Unfortunately in the industrial zones the demand for large spaces is decreasing. The governance of the city purposes to make an analysis of development tendencies and compose measures which are based on the analysis. The city will continue the policy of sustainable and economically-realizable urban expansion. They want to ensure location at the borders of Vienna for recreational aims and nature; furthermore they will apply such building methods that save energy and space in those areas, which are newly built-up. (According to the information heard at the DRC Summer University.)

## **Conclusion**

Is intervention needed in local economy? The answer is very difficult and controversial. According to the researchers, in most cases local actors trusting in success argue in favour of intervention. The confidence, the will to act may arise from the possible inability of the government. However, it can be seen that the local level has limited room for manoeuvre.

In this work I made a short summary of the instruments of local economic development on the basis of literature review. The regulatory and organizational systems of the countries are quite differentiated, but in

the case of economic development tools used by local actors, the situation isn't the same, they are very similar. I analysed the practice of Vienna on the grounds of its last development plan. The plan brings into focus the thinking and acting in a European perspective and the aims are to reinforce Vienna's competitive position and to overcome the challenges.

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