

Working
Paper

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Economic Performance and Economic **Regions in the New Economy:**
Foundations, Strategies and **Governance**

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Presented at:

Regional Economic Performance in British Columbia
Workshop

November 17, 2006
Laurel Point Inn - Victoria, BC

Presentation Overview

- Methodology and Purpose
- Understanding Economic and Administrative Regions
- Understanding Economic Performance
- Foundations of Regional Economies
- Strategies for Enhancing Regional Economic Performance
- Regional Economic Governance British Columbia
- Summary

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Methodology and Purpose

- This paper undertakes a literature review to understand economic regions and economic performance, and identify determinants, strategies and governance structures for enhancing regional economic performance, within the context of British Columbia

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Understanding Economic and Administrative Regions

■ Economic Regions

- Fluid and flexible entities, identified based on the degree of internal integration, and often measured in terms of trade linkages and commodity/ commuter flows.
- Examples of economic regions include central business districts with a surrounding residential commuting area

■ Administrative Regions

- Administrative regions (such as local governments) are geographically constrained entities designed to deliver public services to constituents.

■ Economic versus Administrative Regions

- Economic regions often transcend administrative regions, creating a need for coordinated economic development policies among administrative regions that span economic regions.
- Lack of administrative coordination creates unhealthy competition for investment and inefficient allocation of public resources, which negatively impact social welfare

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Understanding Regional Economic Performance

- **Regional economic performance** measures the economic activity within a region
 - From administrative benchmarking and private investment perspectives, economic performance is best measured as **production** and **productivity** (i.e. the value of all goods and services produced in an economy - GDP).
 - From a public policy perspective, economic performance must also contemplate the **economic well-being** of entities within the region, measured through the accumulation (and distribution) of wealth (often measured via income and investments).
- A **public policy definition** of economic performance must contemplate both **productivity** and **economic well-being**.

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Foundations of Regional Economies

- Location of economic activity based on three factors:
 - **Natural resource endowments** that create competitive advantages, such as in the case of the resource town of Tumbler Ridge
 - **Transportation and communications costs** such as in the case of port municipalities of Prince Rupert
 - **Economies of agglomeration**, in which firms co-locate to realize external benefits and economies of scale, such as in the case of manufacturing firms concentrating in the Lower Mainland
- While historical patterns of economic development influence the nature of economic activity, economic performance can be best enhanced by realizing economies of agglomeration

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Foundations of Regional Economies

- Elements of Agglomeration Economies
 - **Deep labour pools** – concentrated, quality local labour markets that provide opportunities for specialization and knowledge transfer
 - **Integrated supply chain linkages** – firms realizing economic benefits by accessing upstream and downstream supply chains, creating competition and encouraging innovative activities
 - **Knowledge spillovers** – cost saving information is diffused through formal and informal innovation networks
 - **Social capital** theory suggests that knowledge spillovers occur largely through informal networks of association and trust developed in society.

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Strategies for Enhancing Regional Economic Performance

- Jurisdictions need to adopt a multi-faceted approach to enhancing regional economic performance, involving complimentary strategies and multiple stakeholders.
- These strategies include:
 - Developing a **unique activity system**;
 - Encouraging **stability and economic diversification**;
 - Facilitating **knowledge generation, transfer and innovation**; and
 - Encouraging **local involvement and representation** in economic development decisions.

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Strategies for Enhancing Regional Economic Performance

■ Identifying a *unique activity system* within an economic region

- It is difficult for governments to identify specific industries and sectors to target economic development policies, as this requires a sophisticated understanding of the market.
- Governments should pursue a *unique activity system*, which is a strategy that builds on existing endowments and resources to provide some differentiation or low cost benefit, creating a competitive advantage over other jurisdictions (Feldman and Martin 2004).
- A unique activity system should be developed in conjunction with the private sector to build on natural advantages and makes strategic investments

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Strategies for Enhancing Regional Economic Performance

■ Encouraging stability and economic diversification

- Economic diversity is positively linked to income and employment stability, and ensures regions are not overly dependent upon cyclical industries.
- Diversity of activities and competition among relating and supporting industries strengthens regional economies and encourages innovation.
- Competition among firms using similar technologies encourages product differentiation and leads to new production technologies.
- A challenge in diversifying regional economies arises through regional path dependencies, where existing institutional structures (e.g. governments, trade unions and lobby groups) seek to preserve existing structures rather than attracting inward investment/ encouraging new innovation.

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Strategies for Enhancing Regional Economic Performance

- **Knowledge Generation, Transfer and Innovation**
- **Human Capital**
 - Human capital is positively linked to wages employment growth and productivity, particularly in urban areas
 - Human capital is less mobile than physical capital, and attracts firms and investment from labour intensive/ knowledge based industries.
- **Research and Development (R&D)**
 - Knowledge has spillover effects and, as a result, is under produced.
 - Governments should develop “local innovation systems” through university-private sector partnerships that allow for academic research to be absorbed in the market.
- **Entrepreneurial Activity**
 - Entrepreneurial activity fuels innovation, encourages trust and facilitates knowledge transfer, increasing economic performance
 - New firms exploit new opportunities and apply new knowledge to develop technology, while relying on familiarity of the local economy
 - Entrepreneurs must be equipped with business management skills and not be unnecessarily burdened by regulatory frameworks

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Strategies for Enhancing Regional Economic Performance

- **Encouraging local involvement and representation in economic development decisions**
 - Strong community ties positively influences economic performance. Community involvement and local ownership build trust and familiarity with local markets, reducing uncertainty and entrepreneurial risk.
 - Meaningful local participation in economic development decisions facilitates community engagement, knowledge transfer and local buy-in to economic development initiatives, building trust and nurturing entrepreneurial spirit
 - It is important to encourage meaningful community participation in regional economic development decisions and activities, by focusing economic development strategies to the community level. This can be achieved through vehicles such as local community associations and economic development corporations

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Regional Economic Governance in British Columbia

- Coordinating, implementing and operationalizing strategies for enhancing regional economic performance requires participation from a **broad range of stakeholders**
- Two conceptual approaches to enhancing regional economic performance are: **government and governance approaches**
 - Government approaches involve the **formal, centralized institutions** that are hierarchical, inflexible and layered
 - Governance approaches involve agreements between existing institutions on a **voluntary and functional basis**
 - A governance approach allows regional entities to **self-organize**, coordinate and combine their resources as needed, the boundaries of which may align with those of economic regions
 - Administrative regions within larger economic regions may combine resources to form a functional administrative layer to enhance regional economic performance

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Regional Economic Governance in British Columbia

- The local government landscape in British Columbia is conducive to developing functional administrative layers across economic regions.
 - **Municipalities** may provide services outside municipal boundaries, adopt inter-municipal regulatory/ service schemes, enter into partnerships and agreements for service delivery arrangements
 - **Regional districts** provide services to member municipalities and electoral areas on an “as needed” basis. Services may be provided in all or part of a regional district area
 - Both municipal and rural electoral district members are represented on regional district boards and, as a result, regional districts **do not create competition and rivalry** among elected officials for the delivery of services.
- The regional district model is a useful vehicle for involving local governments in functional governance layers across economic regions, particularly in non-metropolitan areas

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Regional Economic Governance in British Columbia

- Local governments have been challenged to work together to promote regional economic development in the past. Previous economic development strategies have proven to be unsustainable. This may be because:
 - Regional economic development is not regarded as a function of local governments
 - Difficulties in identifying functional economic regions and lasting partnerships at the appropriate scale
 - Short-sighted local governments placing individual interest above regional interests, and
 - A lack of tangible financial benefits accruing to local governments as a result of participation in regional economic development initiatives
- As a result, local governments may require additional incentives to cooperate in enhancing regional economic performance, which is the subject of complimentary research undertaken by Broadbent (2006)

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Summary

- Ideally, an economic development governance arrangement would be flexibly structured to include all local governments within functional economic regions, and have representation from the local business and academic sectors, while encouraging meaningful participation of affected communities
- Such a functional administrative layer would seek to develop a unique activity system to promote jurisdictional advantage, encourage economic diversification, facilitate human capital development, undertake R&D activities through university-private sector partnerships, encourage entrepreneurial activity, and nurture social capital at the community level.

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