

Public-Private Partnerships for Local Economic Development and their Impact on Poverty and Inequality

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0 BACKGROUND AND OBJECTIVES

In the attempt to reduce poverty in the developing world, an increasing emphasis is being placed on local government and on the establishment of public-private partnerships to generate economic development. This is true in South Africa, which provided the original inspiration for this research. Partnership approaches have been copied from Western cities, especially the United States and the United Kingdom. In some cases this has taken place with minimal regard to the empirical evidence on the effectiveness of these initiatives in addressing poverty.

This research identifies the lessons from the U.S. and U.K. which may be relevant for developing countries. In particular the research:

- Contrasts partnership approaches, according to the theory and practice which guides them;
- Assesses evidence of the effectiveness of the approaches in addressing poverty & inequality;
- Discusses methodologies for monitoring and evaluating their impact;
- Sets out the implications and applications of the findings for policy makers.

1 METHODS

The extensive literature on local economic development (LED) partnerships in the U.S. and U.K. was reviewed. A limited number of field visits and interviews were also conducted. An analysis was then carried out. The research was guided by a reference group of experts and local government stakeholders in South Africa.

The research dwelled quite extensively on the historical and theoretical literature. This was necessary to explain an unanticipated phenomenon – the wide gap between empirical evidence and ongoing practice. The latter did not seem to take due account of the former. This, and the existence of a large body of promotional material, many of whose claims are not substantially borne out by the evidence, necessitated a more careful consideration of underlying theoretical and contextual issues.

The concentration on the U.S. was dictated by the literature, and the fact that the U.S. has been the source of inspiration for many developing country experiments. U.K. experience provides a valuable contrast with the U.S., emanating from very different municipal traditions during the twentieth century. Both have urban experiences quite different to those in most developing countries, and the straightforward applicability of the findings should not be assumed prior to due consideration of country-specific factors. This research does not include consideration of rural partnerships or partnerships aimed only at infrastructure provision, each of which could be the subject of a separate study in their own right.

Theoretical basis for classification of approaches

Our focus on the impact of LED partnerships on poverty and inequality raises two questions:

What is our definition of poverty? The most common measure historically has been money income. But this is a poor proxy for quality of life, which is a function of many things, including material income and wealth, but also control over natural resources, access to public services and influence over decision making; not to mention other less tangible factors such as social status and community solidarity. To the extent that any one of these factors is in short supply or is monopolised by one group in society, then poverty reduction cannot proceed without simultaneously addressing inequality.

What is the relation between inequality and poverty? Much of the theory which underpins contemporary Western local economic development practice is relatively unconcerned with inequality. This has two potential explanations: (i) poverty will necessarily be addressed by aggregate growth irrespective of trends in inequality (trickle-down); (ii) poverty reduction is not the target of economic development. Frequently it is not clear which of these positions is being adopted. There is also a hybrid position: (iii) aggregate growth may address poverty, but only if it reduces inequality (pro-poor growth).

The theoretical positions adopted on these two questions provided the principal basis for our classification of partnership approaches.

2 FINDINGS

Summary

The record of public-private partnerships for local economic development in addressing poverty and inequality in U.S. and U.K. cities is very mixed. There is a considerable and growing body of evidence which suggests that the greater portion of the public money spent on such partnerships produces, at best, no significant effect on the urban poor. At worst, much of the expenditure may actually lead to increased poverty by diverting public money and energies away from service delivery, subsidising corporate profits, and increasing social exclusion. In order to understand why this is happening it is necessary to be realistic about the capacity for local action in the context of national and international trends, especially the polarising and destabilising impact of globalisation. On the positive side, there are certain kinds of local partnership which do show some promise, even in the current economic climate. However these require us to reconsider our conventional wisdom regarding the definitions of 'public' and 'private' and the popular view that decentralisation is always good for local people. In order to understand more about the impact and potential of these 'equity-based' partnerships, we need a new approach to evaluation, which takes account of the power relations implicit in local governance structures, without losing sight of the hard core quantitative issues relating to wealth and income. Unfortunately there is a vast chasm which separates empirical and theoretical work on public private partnerships with current practices in the United States, and, in recent years, Britain. It is no exaggeration to say that the practice lags the evidence by about 25 years.

Classification of approaches

The research found that the most useful basis on which to classify partnership approaches was (i) their definition of poverty, and (ii) their view of the link between poverty and inequality. These theoretical differences make most sense when considered in the historical, political and geographical context in which they emerged. Thus the following three approaches can be distinguished:

Traditional approaches emerged in the private enterprise culture of North American cities in the post-war period, based on neo-classical economic theories of industrial location and urban land markets. They prioritise property-led downtown urban renewal by private developers. Government assists the process with its powers over planning and compulsory purchase, and works to attract industry with inducements such as tax breaks and cheap land. Traditional approaches are more concerned with efficient growth than equity, and to the extent that they target poverty do so primarily through the trickle-down of income. This logic gained much ground in Britain in the 1980s, especially in central government, although local authorities in the U.K. were much more constrained than their U.S. counterparts.

Entrepreneurial approaches were an attempt to ride the tide of economic restructuring associated with the recession and deindustrialisation of the 1970s, in order to ensure ‘smarter’, or in some cases ‘pro-poor’ growth. They place a major emphasis on assisting (especially small) businesses to get started and to become internationally competitive, in order to create highly-skilled well-paid jobs in the new service-oriented economy. Government can help with venture capital, premises, support for training, networking, R&D and so on. The more recent concern that downgraded employment may be a permanent, rather than temporary, consequence of economic restructuring has intensified efforts to target those industries or enterprises which offer the best jobs for local people. Entrepreneurial approaches, then, still focus on income poverty, but assert that the state has an active role to play in achieving equitable growth.

Equity-based approaches reflect a scepticism about the possibility of improving the quality of life of the poor without increasing their power over the urban system. This emerges from three convictions. First, that the simplified assumptions and narrow focus of neo-classical economic theories fail to predict or offer solutions to intensifying urban poverty and inequality. The public traditions of town planning and council housing in Britain reflect this view. Second, that processes of economic globalisation are reducing the ability of local authorities to create, attract or retain good jobs. Third, that urban political systems, especially in the U.S., are weighted in favour of affluent elites, and so increasing the control of the poor over urban ‘governance’ is crucial to poverty reduction. Hence equity-based approaches aim to address exclusion in the broader sense by increasing democratic accountability and participation, strengthening community groups, bargaining with and regulating business, and focusing on improving basic municipal services for the poor.

Findings in detail

1. *Traditional partnerships which focused on downtown property development have probably intensified the stark contrasts in many U.S. cities.*

Downtown urban renewal in the 1950s and 1960s transformed the physical appearance of many North American cities, and contributed to new patterns of life and work. Dilapidated working class neighbourhoods and disused factories were raised to the ground, and

replaced by modern offices, banks and shopping malls. Highways and mass transit systems made it possible for suburban professionals to commute into the city. Some displaced residents moved to other inner-city areas and found work in the increasingly service-centred economy. Others were displaced to new 'edge-cities' at the urban periphery or out of the city completely. In this way the foundations of the modern U.S. urban structure were laid, with its downtown skyscrapers encircled by poor neighbourhoods, beyond which are upmarket commuter suburbs leading into miles of urban sprawl. Acute poverty and social exclusion certainly did not go away, and its racial character was demonstrated quite dramatically by the 1960s urban revolts.

2. *Traditional partnerships which aimed to attract industry with inducements have probably had very little overall effect.*

The impact of local inducements which aim to attract industry by reducing costs is hard to assess, since it is impossible to say what would have happened in their absence. However it does seem likely that national economic policies exerted a far greater influence over aggregate growth. Inducements may have succeeded in prompting relocations but even at the local level, the evidence is unconvincing. This is because other factors, such as markets, labour supplies, 'quality of life' considerations, and even the personal backgrounds of owners exert a far greater influence over firms' locational decisions.

3. *Entrepreneurial partnerships, which aim to hasten industrial restructuring may have helped to usher in poor quality jobs and labour market polarisation.*

The more entrepreneurial approach of the 1970s did succeed in attracting economic activity to U.S. cities. Whether one considers the impressive commercial, retail and tourism growth in cities like Baltimore, or the nurturing of hi-tech manufacturing in Silicon Valley, the entrepreneurial role of the state seems to be vindicated. And yet there is another side to the story in both these cases, and many others like them. Baltimore's new service sector is characterised by a large number of low-paid, temporary and seasonal jobs. In the 1990s, income inequality is greater than ever before, and the soup kitchens are serving record number of working black families. In manufacturing, the 1980s trend of downsizing, outsourcing and increased use of part-time and temporary employees has led to similar results. In the city of San Jose, home to much of the (largely Latino) Silicon Valley workforce, nearly 40% of jobs pay too little to keep a single parent and child out of poverty. Polarisation of urban labour markets seems to be a general problem, with women and ethnic minorities being the hardest hit due to prior and ongoing discrimination.

4. *Many contemporary partnerships have failed to create jobs in small business and have led down a slippery slope into wasteful 'bidding wars,' and 'corporate welfare'.*

The attempt to focus entrepreneurial strategies on small firms is fraught with problems. Small businesses increasingly bear the brunt of international competition and their jobs can be very poorly paid, as evidenced by the proliferation of sweatshops in U.S. cities. The reliance of so many small firms on winning contracts from capricious large corporations, means that they often cannot afford to pay decent wages. In fact, the record profits of many large corporations during the 1990s depends in part on job cuts and outsourcing. Many multinationals have gained control of vast international production networks over which they retain the ability to move plants or switch suppliers at regular intervals to keep costs down.

This threat of relocation seems to have become a key bargaining chip for gaining access to local subsidies and provoking bidding wars. This is an insurmountable targeting problem. If municipalities have the discretion to give help to local businesses then it seems that very large firms have the bargaining power to demand the lion's share. This explains the widespread public hostility to public-private partnerships in the United States which has spilled over into the mainstream media, as revealed in this extract from Time Magazine: “[The] deals are usually trumpeted as ‘economic development’ or ‘public-private partnerships.’ But a better name is corporate welfare. It’s a game in which governments large and small subsidise corporations large and small, usually at the expense of another state or town and almost always at the expense of taxpayers... Two years after Congress reduced welfare for individuals and families, this other kind of welfare continues to expand, penetrating every corner of the American economy. It has turned politicians into bribery specialists, and smart business people into con artists. And most surprising of all, it has rarely created any new jobs... Fortune 500 companies...have erased more jobs than they have created this past decade and yet they are the biggest beneficiaries of corporate welfare’ (Time Magazine, cover story, 09/11/98)

Where jobs are created, many firms have been able to demand very high costs per job, in excess of several year's wages. And it has not proven easy to monitor or enforce the job creation or to ensure that the firm does not move or liquidate soon afterwards. In addition, there is a vicious circle in U.S. cities which often means that increased tax revenues associated with business growth are immediately squandered on further subsidies..

5. ***Equity-based approaches, which aim to empower the poor directly, offer the most promise. They depend for their success on a mobilised and well-informed electorate and visionary leadership.***

It is possible to say with confidence that a number of the equity-based approaches have helped to reduce poverty, in the broader sense of improving quality of life and reducing social exclusion. Support for community groups, in particular, targets quite well defined populations, and it is possible to track the benefits directly. For example, a large number of U.S. community development corporations and U.K. voluntary organisations have provided affordable housing and social services to their members or local residents with the assistance of the local authority. Moreover, the direct involvement of residents in their own self-help projects has often been empowering in other ways, such as by imparting skills. However, the narrow target group generally means that the benefits are not widely spread. In this regard, direct comparisons between public provision and provision through community groups would be helpful.

Those equity-based approaches which attempt to impose developmental conditions on local businesses also seem to have been successful within certain limits. For example, construction linkage policies (or ‘planning gain’) has been used effectively to extract fees from developers for the purposes of building affordable housing. One argument against this kind of approach has been that it may discourage investment and reduce growth. There is no persuasive evidence of this, even in the case of ‘living wage’ legislation introduced recently in a number of U.S. cities. Living wages boost income for low-wage city employees and subcontractors, often via an agreement between local authorities and community groups or trade unions, and are a significant development worth further investigation. The introduction of such progressive innovations always seems to hinge on

the combined presence of community mobilisation and visionary political leadership to counter opposition. The feasibility of living wages and linkage policies clearly depends on local economic conditions. Some suggestion has been made that they might be applied as a quid pro quo for up-front assistance to developers such as cheap land. This requires further investigation.

6. ***LED partnerships are very difficult to evaluate and there is a tendency to measure the wrong thing. Officials avoid rigorous or participatory evaluations, probably for political reasons.***

Many quantitative evaluations of local economic development partnerships are inconclusive or unconvincing. It is very difficult to untangle complicated processes of cause and effect in urban economies, and some studies have solved this problem by measuring an intermediate variable and adding a number of assumptions. For example, an observed increase in business start-ups has been taken to show that the economy is healthy, jobs are being created and poor people are benefiting. Some evaluations have even resorted to asking participating municipal officials or businesses whether local economic development partnerships are successful and taking their generally affirmative responses at face value. Unsubstantiated claims abound and shoddy research seems to reflect a desire by politicians to be seen to be working hard, but not to be put to the test too rigorously. A number of studies have concluded that local economic policies are generally chosen for the ribbon-cutting opportunities they present. No single study has developed a convincing method for studying the impact of LED partnerships on poverty.

7. ***We need a participatory approach to evaluation which combines an analysis of power relations and governance with measurement of human development indicators.***

Equity-based partnerships are particularly hard to evaluate, since they are concerned in part with less tangible benefits, such as increased accountability and democracy. A number of recent evaluations, especially in the U.K., have abandoned any concern with indicators such as income or employment and have focused exclusively on an analysis of institutional relationships. In some instances this has slipped into a kind of tautology: partnerships tend to increase access to decision making, so if we can find evidence of good strong partnerships then there is a positive result. Where institutional analyses focus on a realistic dissection of differing power relations and interests they tend to be more useful. However they ought still to be combined with an analysis of appropriate indicators, such as income, access to services etc. The most important component of evaluation is the participation of local people themselves. This requires public access to all relevant information, something which is rarely allowed by agencies which handle public-private partnership deals.

8. ***Central government policies are absolutely vital in encouraging the right kind of local partnerships. Decentralisation may be a wolf in sheep's clothing. For example, Britain's centralised approach to revenue sharing (or 'fiscal equalisation') has prevented the worst excesses of the U.S. system.***

U.S. cities are caught between a rock and a hard place. They generally rely extensively on local tax revenues. And the largest tax payers are businesses. There is therefore a strong incentive for them to try to attract businesses by whatever means are available, including tax abatements. This leads to fierce competition between cities, which tends to reduce their ability to collect and make good use of taxes subsequently. Several prominent urban

theorists have concluded that this cycle prevents cities from introducing redistributive or anti-poverty policies. They have called for the introduction of a revenue sharing or ‘fiscal equalisation’ programme in the U.S. like that which operates in parts of the U.K. They have also called for greater central oversight of local borrowing to reduce the ability of financial institutions to ‘veto’ progressive or redistributive policies which they may perceive as risky. By the same logic, central control of business rates in the U.K. may be a blessing in disguise for local authorities. There are one or two highly innovative policies in the United States which have supported equity-based partnerships. These include a tax credit which is awarded to corporations in return for the construction of low-income housing in partnership with non-profit community groups.

Local government boundaries are also very important. The patchwork of small local jurisdictions in most of the U.S. creates negative competitive incentives and tends to increase urban inequality. Metropolitan-wide government, as currently proposed for London, provides a much better basis for regional planning, and allows the use of city revenues to combat the causes of urban poverty more systematically.

9. *Even centrally-administered programmes like the Single Regeneration Budget (formerly City Challenge) in Britain have in some instances been squandered on U.S.-style corporate welfare.*

Although ill-informed decentralisation can create negative incentives, centralisation is not guaranteed to remove such effects. Britain’s centrally-administered urban programmes have also been open to negative ‘beggar-thy-neighbour’ competition. What is required is a detailed analysis of the intended and unintended consequences and incentives which are likely to be generated by different types of decentralisation and centralisation. This can be aided by international comparative research.

10. *It is important to transcend narrow definitions of ‘public’ and ‘private’ and to recognise local power relations.*

U.S. urban politics is strongly influenced by a deeply-rooted tradition of ‘privatism’. Nineteenth century ‘frontiersmen’ were mayors, landowners and businessmen rolled into one. A hundred years later, city businesses still exert enormous influence over urban politics through campaign contributions and other mechanisms. U.S. corporations are ‘constitutional persons’, with certain political rights denied to non-profit community groups. A substantial literature exists on the way in which these factors bias urban politics and partnerships in favour of certain interests. The tradition of privatism was also strong in Britain during the last century. However social and political factors led to it being tempered by a countervailing tendency of concerted action by the state. This was reversed somewhat during the 1980s. Such differing and changing popular conceptions (and legal definitions) of the roles and responsibilities of public, private and community institutions must certainly constrain their ability to act. Community groups may be excluded from partnerships since they do not fall neatly into one or other category, or they may be expected to participate as equals, despite their lack of resources. Trade unions, for that matter, are completely absent from most discussions of public-private partnerships, yet they often represent a key local constituency. We may need to look for forms of ‘governance’ which transcend traditional labels. This ought not to be done in a way which eulogises all unconventional governance arrangements, but rather looks with an open mind for solutions which increase the power and participation of the poor, minorities, women and so on.

11. *We need to keep our eye very firmly on the prize – poverty reduction.*

This sounds simple enough, but it isn't always the case in practice. Local economic development partnerships are almost always justified publicly in terms of their impact on services and livelihoods. Yet in a major recent survey of senior municipal officials in the U.S., around half the respondents said they saw poverty reduction and economic development as separate programmes with separate objectives. This demonstrates the importance of ensuring that we share common objectives and understandings before we adopt policies used elsewhere.

3 APPLICATIONS

The principal applications of this research are implicit in the above findings. The lessons should be taken into account when designing local government policies, after their relevance in a particular country setting has been assessed. This will require consultation of the literature in more detail, and the accompanying background article contains a full set of references. The relevance of our findings is increased by the fact that the potential contribution of public-private partnerships to poverty alleviation depends on a wide range of policies, from intergovernmental fiscal policy to demarcation of boundaries.

4 DISSEMINATION

The initial findings of this research were presented in a number of policy forums in South Africa, including the Parliamentary Portfolio Committee on Local Government and the Graduate School of Public and Development Management in Johannesburg. They were subsequently used as a crucial starting point for a separate research project which looked at the specific context of local economic development in South Africa. The findings of this second research project have already been incorporated into the Local Government White Paper, promulgated in 1997.

It is now proposed that this research report be reviewed and edited and then circulated amongst key policy makers in South Africa. It is also suggested that advice be sought through the DFID Governance and Institutional Development advisors on its relevance to other developing countries in which DFID works. A more extensive dissemination strategy might then be formulated. It is intended that the accompanying article be reviewed and edited ready for submission for publication in an appropriate academic journal.