



# CREATING ECONOMIC OPPORTUNITIES



KANSAS STATE UNIVERSITY AGRICULTURAL EXPERIMENT STATION AND COOPERATIVE EXTENSION SERVICE

## A Community Development Newsletter

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### IDEAS YOU CAN USE

#### COMMUNITY ECONOMIC DEVELOPMENT CED for the 21<sup>st</sup> Century

By David Darling, K-State and Mark Peterson, Univ. of Ark. Ext.

This article presents a 21st century approach to development. The authors start with a list of eight major new realities. Then five key concepts are presented that will deepen the reader's understanding of a civic process of economic development. In so doing, the authors will point out the limitations of a *job development approach* to CED as compared to a *21<sup>st</sup> century approach*.

#### MAJOR NEW REALITIES IN THE 21<sup>st</sup> CENTURY

One of the features of the new era, the **Age of Uncertainty**, is the speed, number, and variety of forces that impact communities. This opens up new opportunities for communities to do business worldwide. However, it also is more challenging. The following major forces and trends have powerful implications on the vitality of U.S. communities and their economies.

1. **Terrorism and threats of terrorism threaten our peace and security** - Terrorism is a reality that many nations have been dealing with for years. On September 11, 2001, terrorists struck the United States and Americans are still trying to come to grips with its impacts.
2. **The arrival of the service and knowledge-based economy** - Growth of jobs related to services and knowledge work is expected to continue, particularly in the U.S. Driven by the explosion of information, knowledge, and technology, this new economy is expressed not only by the rise of hi-tech firms, but also by the incorporation of information technologies into all sectors of our economy. This economy has no borders, thrives in an environment of networking and free markets, and operates all the time and on compressed time (Internet time).
3. **Globalization** - The collapse of the Soviet Union, the lowering of trade barriers, the reduced cost of transportation, and the use of new information technologies to send information, knowledge, technology, human capital, and financial capital across borders are some of the forces driving the integration



#### OUR MISSION:

“Dedicated to a safe, sustainable, competitive food and fiber system and to strong, healthy communities, families and youth through integrated research, analysis and education.”

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- of ideas, people, cultures, and economies world-wide. This increases the levels of interdependence. The global economy includes knowledge-based workers who can work any where in the world and commodities that are marketed on the basis of world prices.
4. **The rise of regional economies** - Just as the forces of globalization impact us, so do regional economies. The formation of the European Common Market and the North American Free Trade Agreement make it easier for goods, services, capital, and technology to flow across borders within these regional economies. On a smaller basis, state economies increasingly are becoming less relevant than dynamic regional economies that cut across state lines and are anchored by a central city or an urban cluster.
  5. **Demographic changes impact our work force and communities** – Hispanics now out number African-Americans in the U.S. The diversity of our nation increases as immigration represents 40 percent of our population growth. The Baby Boom age cohort will soon hit retirement age. Also, the rural population continues to decline while the urban and suburban populations continue to increase.
  6. **Changing nature of our workplace** – There are several dimensions to the changes in the workplace: an increase in the number of knowledge workers, more temporary workers, and greater attention to virtual workplaces. Computer skills are now an absolute requirement for an increasing number of jobs. There is greater demand for highly skilled workers and unskilled immigrant workers. Those in the middle will be increasingly left out.
  7. **Increasing concern for the natural environment** – Population growth and other developments have put greater pressure on these elements of our natural environment: green space, water quality and quantity, wildlife habitat, waste disposal, and recycling areas.
  8. **Trust in the key institutions of society** – In the spring of 2002, Americans realized that the institutions that govern and support the equity markets were not trustworthy. The 500 biggest publicly

traded corporations lost market value and millions of people experienced either a paper loss of net worth or a real loss.

It is in the context of these larger forces and trends that our discussion of community economic development takes place.

### **CONCEPT ONE—Sustaining Progress, A change model**

Change models are constructed to explain and predict progress. In 2002, K-State Research and Extension published a new change model – Sustaining Progress. The reader can find it on the Web at [www.agecon.ksu.edu/ddarling](http://www.agecon.ksu.edu/ddarling). Then click on Extension Resources. Also view the PowerPoint presentation.

**Sustaining Progress Model** (*featured in the Summer 2000 newsletter*)

**Progress = f (A, V, P, R, B)**

**Where:**

**A** stands for a set of attitudes based on an underlying set of values and principles that shape the culture of an organization, define the character of its leaders, and prepare the community for the challenges in the 21<sup>st</sup> century.

**V** stands for a compelling vision in the knowledge-based economy. The vision gives focus and direction to planned efforts while challenging, motivating and uniting the members of the team.

**P** stands for a strategic plan that is designed to guide actions as the vision is pursued.

**R** stands for a set of resources that are needed to implement the plan (*Discussed in the next section*)

**B** stands for a set of outcomes that benefit all those involved in the process and other stakeholders.

A mathematical way to express the above generalized formula follows:

$$\text{Progress} = (A \times V \times P \times R \times B)$$

This shows that the variables in the equation compound. No progress can occur unless all variables have positive values. A positive value for each variable of greater than zero and up to one allows progress to occur at different rates. Ideally, state all variables have a value of one.

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## CONCEPT TWO—Five Forms of Capital

A comprehensive approach to community economic development is well planned with adequate resources. These resources now are grouped into five forms of capital.

They are the following:

1. Human Capital
2. Social Capital
3. Financial Capital
4. Engineered Capital
5. Natural Capital

*Human Capital* is the knowledge and skills used in the production process. It includes the skills of production workers, marketing officers, financial managers, and organizational leaders. It includes the work ethic, attitudes, and values of the work force. *Social Capital* is the trust and working relationships in a community, state and nation. *Financial Capital* comes in different forms to pay for tasks such as starting a business, expanding a business, or building a school. *Engineered Capital* is the collection of human engineered things not already covered as human, social, or financial capital. Hard-engineered capital includes physical infrastructure such as fiber optic cable and soft-engineered capital includes the organizational and institutional infrastructure as well as the governance of these two. *Natural Capital* is nature's endowments.

## CONCEPT THREE—Total Development Paradigm— (Click Paradigm link on website)

### *The Layer Cake Model*

The Total Development Paradigm is an important addition to the conceptual approach of community and economic developers. This model uses a systems approach to show how all components of development fit together. Industrial development is a subset of economic development. Both are a subset of community development. The conceptual model makes an important point. Industrial developers focus on a smaller set of resources or forms of capital than community developers. The industrial developers concentrate on engineered capital some times to the exclusion of all other types. The latest emphasis is on broadband connectivity and inter-modal facilities.

The conceptual model illustrates that what may be

holding back one community may not be a problem in another one. For example, Community A may be losing its natural resource based economy while Community B may lack the leadership infrastructure to move forward. This illustrates the need for a holistic approach to development. The Total Development Paradigm is discussed below and shown in **Figure One**.

*Economic Base:* These economic production activities result in the output of goods and services for sale primarily to customers outside the functional economic region. Thus, the firms in the economic base bring dollars into the area economy. Examples include production agriculture, value-added agriculture, mining, forestry, fishing, manufacturing, tourism, and even call centers.

*Physical Infrastructure (hard infrastructure):* Physical installations provide the means for local business, industry, government, and residential dwellings to function. People and firms cluster together to collectively share in the burden of financing the engineering, construction, and operation of a waste water system, drinking water system, industrial parks, road system, and the like. Historically, industrial developers focused on these assets almost exclusively.

*Support Systems:* Services and activities that nurture a high quality of life support the other layers in the community. Communities have medical services and facilities, educational services and facilities, retail services and facilities, and the like.

*Human and Social Capital:* These include values and capabilities of people in the community, as well as the institutions, relationships, and norms that shape social interactions in the community. Human and social capital will become more important to progressive communities in the 21<sup>st</sup> century.

*Leadership Infrastructure:* Individuals and organizations that seek to develop and express leadership can be very helpful as the community pursues a vision of being a progressive and healthy place to live. The leadership infrastructure includes people with vision, spirit, enthusiasm, and leadership skills. They are the ones who are trusted, who cooperate, who empower others, and make local government and other systems work effectively. The leadership infrastructure is the bottom layer because, in many

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respects, it is the most critical one. Leaders from throughout all sectors of the community exert the most influence on what the community becomes. They set up the contextual conditions and then make decisions within that context. The results are development initiatives that succeed or fail the community.

Finally, this layer cake model rests on a foundation of *environmental and natural resources*. If the layer cake model was an automobile, the top four layers would be the four tires and the bottom layer, leadership, would be the driver. If one tire goes flat, the automobile cannot move forward. Similarly, if the driver is drunk, lost, or too young, the automobile will not reach its destination.

The Total Development Paradigm can also be seen as a snapshot of a community at any particular point in time. If one asks community leaders knowledgeable about the knowledge based economy to describe what they hope each layer will look like in ten years, one would discover the utilization of information technologies woven into the community's fabric. Then people would be reminded that the macro-environment forces, such as new knowledge, as new technology, and global conflict, impact all communities.

This brings us to the next major point. Every dimension of development fits together in a comprehensive system. Community development professionals, planners, community leaders, and elected officials cannot ignore anything. Housing problems can impede development just as much as shortages of labor, industrial sites, financial resources, or broadband Internet service.

#### **CONCEPT FOUR—Six Sets of Goals**

Progress will mean something different to every team or organization because every team has different goals and plans. Community residents have one simple gauge of progress and that is a sense that their quality of life is improving. Here are six sets of goals that have to be addressed as community residents collectively vision, plan and act to improve their quality of life.

These are the following:

1. Growth goals
2. Stability goals
3. Development goals

4. Social goals
5. Stewardship goals
6. Building Social Capital goals

The following are short definitions. Growth is the expansion of existing facets of the community such as good quality jobs and the housing stock in an existing neighborhood. Development is the creation of new dimensions in the community such as a community foundation or an assisted living complex. Stability goals address problems due to decline or large variations in economic activity. Social goals are a set of things that directly affect the community's quality of life. Some examples are violence, injustice, and inequity. Stewardship goals address the quality and quantity of the stock and flow of our natural and environmental resources. And the building Social Capital goals are ones that address trust and cooperation within the community and its many organizations.

#### **CONCEPT FIVE: Basic Strategies for Development**

Resources are valuable only when put to work. Action planning is driven by intelligent development strategies.

Here are five.

1. Retain and expand existing business and industry,
2. Assist the creation of new firms
3. Improve the local linkages between buyers and sellers
4. Capture unearned dollars such as grants and inheritances
5. Attract compatible business and industry.

**The Economic Development Pyramid.** This visual not only displays the five basic strategies for community economic development, it also suggests that it takes more work than just the implementation of five development strategies. Local leaders, working with local governments, must build effective partnerships to create the environment for growth and development to occur. It takes concerted planning and coordination over many months and years to enrich the business environment to the point that business and industry will thrive. It is worth noting that a community cannot attract investors unless it is attractive.

This leads to a major point. Most industrial developers define economic development as a job creation proc-

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ess. The authors define economic development as a process of accumulating resources (capitals) to support and enhance production and thereby improving per capita output in the region. More capital should flow in than out. **This means that the mining of resources as a means to the goal, economic development, is acceptable in the old paradigm but problematic in the new one.**

True development can be done when the producers of goods and services also are reinvesting continuously. Producers are not only private sector firms. The public sector, not-for-profit organizations, and membership organizations all produce products. Dr. Neal Flora makes the case that a balanced approach by all of these creates the best outcome. She divides up the world into three spheres, the market, the state, and the civil society. All compete for dominance. All overlap. Each needs the other two.

## FACTS YOU CAN USE

The new, **2000 –2001 Strength Index** is now available on the Internet. [agecon.ksu.edu/ddarling](http://agecon.ksu.edu/ddarling) Click on C.D. Study Reports. This year's base data is better than ever. Population numbers are based on the 2000 Census numbers adjusted downward for the institutionalized population in each county.

The **Strength Index** is made up of the sum of the Wealth Index, the Personal Income Index, and The Employment Index. Only 6 counties have an index of 3.00 or better. Since an Index of 3.00 is one that reflects a perfect balance of county over state numbers, this is a small number. The distribution is distorted by Johnson County. Its index is 4.75, way above second ranked Miami at 3.25. The top ten are Johnson, Miami, Saline, Douglas, Jackson, Shawnee, Ellis, Butler, Sedgwick, and McPherson Counties. Johnson County has the highest Wealth Index (2.02) and Income Index (1.59). But, Jackson County has the highest Employment Index (1.41).

**In summary**, community economic development is a vision charged civic process. The vision helps focus attention on a set of key issues that when resolved will improve short, medium, and long-term economic health and vitality. Finally, this is made possible when local assets are effectively used and matched with outside resources.

**Figure Two**

### ECONOMIC DEVELOPMENT PYRAMID



**START AT THE BOTTOM.**

**BUILD A FIRM FOUNDATION THAT WILL SUPPORT A SUCCESSFUL ECONOMY.**

Kansas State University Agricultural Experiment Station and Cooperative Extension Service.  
All educational programs and materials available without discrimination on the basis of race, color, religion, national origin, sex, age or disability.

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*A Pearl Collection*

“I lived to laugh and laughed to live.”  
Milton Berle



# Conference Date Book

## *4-State Heartland Community Development Conference*

**When:** *November 7 and 8, 2002.*

**Where:** *The Holiday Inn in Bartlesville, OK*

**Featuring** *Bill Kurtis, Journalist and Document Film Maker.*

**Price is \$65,** *Contact Ag Conferences, Oklahoma State University at 405-744-6489.*

## *The 8<sup>th</sup> Annual Kansas Rural Policy Symposium.*

*Theme: Building border to border prosperity: A memo to the new governor*

**When:** *November 21<sup>st</sup> at the K-State Student Union*

**Where:** *Kansas State University in Manhattan*

**Featuring** *Mike Hayden and Sheila Frahm*

**Price** *to be announced.*

**Register** *online at <http://www.ksu.edu/kcri/rps>*

# November 2002

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LIFE**



## COMMUNITY ECONOMIC DEVELOPMENT FOR THE 21ST CENTURY

K-State Online—Spring 2003  
Classes begin January 17th, 2003  
CREDIT OR NOT-FOR-CREDIT—Your Choice



**Participants will learn basic theories, concepts, and skills necessary to be a part of a productive community economic development team. This will involve studying the importance of vision, five community functions, the economy function, economic strategies, action planning, and organizing for action. The**

**K-State Students can choose to take the course for undergraduate or graduate credit.**

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