

Community Economics

Nobumichi Mutoh

Keywords :

community the graying of society community business demographics
business success business social responsibility town planning
reversal situation of budget community policy

This paper examines the new field of community economics with respect to Japan. A number of studies in community economics have already been produced in OECD countries including the United States. Although these are of great interest, each country has its own historical, socioeconomic context and must therefore develop its own approach to community economics.

Community-oriented economics is neither macro- nor micro-economics in the standard economics textbook sense. Most community economics studies approach issues from a community-mindset, integrating theoretical and empirical elements. Section I of this paper describes current issues in Japanese society that are related to community economics. Section II defines the notion of community, describes the characteristics of “community economics”, and presents approaches to economic development of communities. Section III examines the question of national (central)

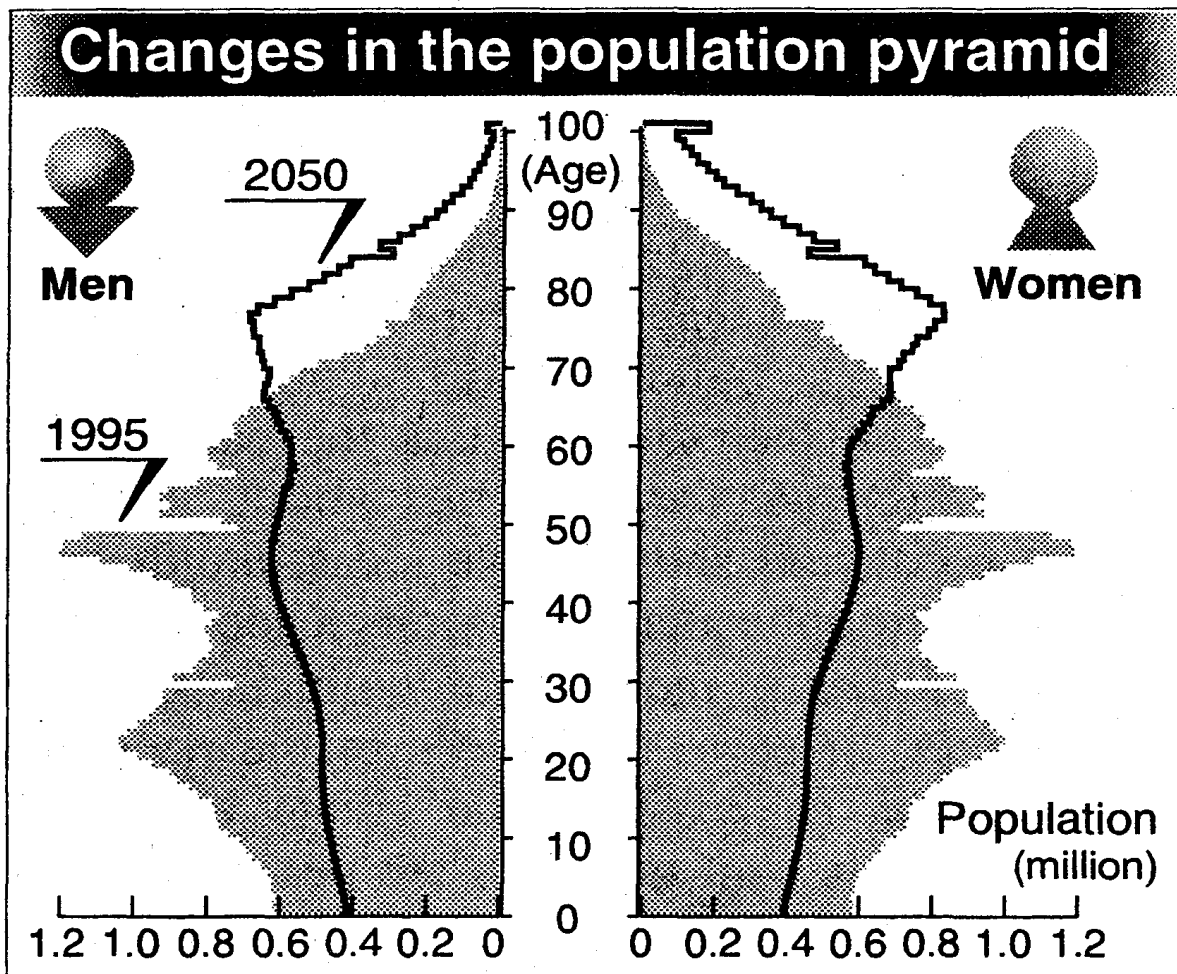
vs. local revenues and roles in serving the community. Section IV presents the findings of empirical studies which have identified crucial characteristics of local businesses which contribute to their financial success and community-mindedness.

I Japanese Society

Recently Japan has seen an explosion of interest in town planning, as it has become apparent that society must do a better job of meeting the needs of all its members, from infants to the elderly. Japanese society is graying at a rapid rate. It is being widely stated that by the year 2020, 1/5 of the population is projected to be 65 years of age or older. This is based on a 1995 National Census Estimation. However, the updated estimate (1997) is that already by 2015 that milestone will be passed and by the year 2050, the proportion of people over 65 will be 25% or more. (Fig1) We can already observe "elderly communities" in which most children move away when they grow up. In most communities, family-owned stores that developed around railway stations have disappeared with the emergence of big department stores, supermarkets and convenience stores. Also, with the development of motorization, big discount stores have been built in open spaces on the outskirts of towns and are only accessible by car. Elderly people can only go shopping with other people's help. Motorization and heavy traffic have resulted in the construction of wide roads that require people to wait through two traffic signal stops in order to cross the entire width of the road. Now local governments are considering road building in a different way. They must also think about a new way to structure shopping and living areas that takes into account elderly people's daily behavior and needs.

The graying of society is partly the result of a declining birthrate. Nationwide, the decreasing number of children is expected to result in a labor shortage within 5

Fig1 Based on "Future Population", an estimate made in 1997 by the government's National Institute of Social Security and Population Problems.



years. For a period of about 10 years, the gap must largely be filled by women and elderly workers, but even now many young working couples feel unable to raise children in addition to working at their jobs. Eighty percent of respondents to an NHK poll, felt either fairly or very worried about the lack of social supports for working mothers and their children and look to the government for solutions. There is now urgent examination of issues including how to create venture businesses and jobs in small communities, how to provide day care and other support for young families, and how to create more user-friendly shopping and living for the elderly.

Community economics constitutes an integral element in town planning and in

solving these current social concerns. With proper policy and budgetary coordination between the national and local governments and with healthy, job-creating local economies, communities can be created that are supportive of child-raising working couples and that assist the elderly to remain independent as long as possible.

A traditional characteristic of Japanese society is the local organization of people by neighborhoods (in “chounaikai” or “jichikai”) for the purpose of cooperating on common concerns and interests such as bon-odori, bazaar, rubbish collecting, recycling and so on.

These organizations are not directly connected with community economies unless they start forming a market for price and quantity negotiation. Only when the cost to consumers of trash disposal, for example, reflects more accurately the true cost, will people be motivated to reduce their trash output. With local governments currently spending tax money to provide “free” trash disposal, there is no motivation to conserve. With private companies charging households for trash removal, however, new businesses would be created and consumers would become more trash conscious. Historically public transportation is run by both private and third sector's collaboration. This sector could provide a model for the problem of trash disposal.

Job creation is important for community economics, for without it, local development is impossible. The community economic market itself is very small. No matter how small it is, however, it is important to foster that market and create jobs to attract and keep young people.

Environmental problems are a big issue that influences each individual living in the community. Therefore people think about them in a more personal way. Improper trash disposal that pollutes the community with dioxin, for example, is the

sort of problem should be handled by local government, businesses, and residents with central government assistance.

Community economics is a new field, but all of the above mentioned problems can be dealt with by using economic activities both in the market and outside the market. Community economics includes both traditional "for profit" economic activities and typical community activities such as informal loans, bartering, and gifts.

II Community Economics

Community economics is a new field of study which covers both market and non-market activities. Nowadays due to steady economic growth in the United States, a new economic theory called "The New Economics" emerged. This is neither Keynesian economics, nor Neoclassical economics. It deals with both the government's role and the market mechanism. Such an economy was once labeled by Samuelson as a mixed economy in dealing with both market mechanism and government role. Community economics is a new stream stemming from both new and old economics. As already mentioned, community has a close relationship with the local government. At the same time it is shaped by the market mechanism. Therefore there are many similarities between community economics and the new economics.

"Economy stems from the concept of hearth and home. The notion of 'a community economy' takes economics back to its roots, for community economics is the reintegration of social and economic goals in the context of community life." (a quote from O'Connell Magi)

There are 94 definitions of community (G. A. Hillery, [Definitions of Community]) from which we choose only three. The word community is closely related

to communication and communion service. Originally this word comes from the Latin words “cum munere” which means “with the Lord we walk or we serve”. Those who believe in God take communion service and live together in a church community. If we divide the word into parts com and munity, we find the meaning of 'together' and 'obligation' or 'mission'. The Latin word munus and its adjective munis include the meanings of doing something with pleasure, doing one's duty and doing something kindly.

Our three-part definition of community sounds old but is quite new to this field. At the geographical level it includes, as the smallest community, the neighborhood and as the larger community, the town or city. If we look at common geographic boundaries of community, it may be described as “neighborhoods”, “localities”, “communities” or “a comfortable travelling distance”. An important aspect of these two types of community is the need to maintain the opportunity for face to face communication. The third type of community transcends geography and is based solely on some common interest. It is realized through the internet or tele-satellite communication and can include people physically far removed from each other but who share a need or desire to communicate about their common work or interest.

Characteristics of Community Economics

A distinguishing feature of community economics is the many forms that economic activity may take. Many of these fall naturally outside the area of taxable, regulated activities or are actively hidden from tax and regulatory authorities. These include payments in cash, informal loans, bartering and gifts. Informal, interest-free loans among community members are signs of trust and contribute to the building of communal ties. Cash is often the preferred form of payment as it leaves no paper trail. Some economic activities, such as barter, are subject to regulatory and tax liability as income in kind, but because they are often not reported are in fact il-

legal.

Efforts either to regulate or even to successfully study community economics meet with enormous difficulty for several reasons. First, the forms that such activities take are more varied than normal practices and harder to identify. Likewise, the organizational structures are not those of companies and other formal organizations, but social networks. Economic activities occur along with and inseparable from normal social interaction. Since trust is an important element, agreements are usually verbal rather than written, leaving no written records.

The very basis of community economies differs significantly from formal economic activities. Ties are based on acquaintanceship and the degree of closeness and mutual regard. Although companies and formal economic entities must abide by agreed upon fixed positions, agreements in community economies tend to be more flexible and subject to changing circumstances. This, in fact, is one reason for the ability of a community economy to be creative and adaptive in the face of change. Community economies are also more grounded in "place" than are formal economic entities. "Place" includes both the social and physical sense. The geography, ecology, history, culture, demographics, formal systems and location of the players in the informal economy shape the nature of their economic activities more profoundly than is the case in the formal economy.

A contrast can also be seen in the tone and atmosphere of interactions. In the formal economy, what matters is the bottom line. The emphasis is on growth and tangibles. In contrast, players in the community economy are focused more on the processes at work and are comfortable letting the processes evolve and change as circumstances may dictate. Non-monetary satisfactions, including the strengthening of communal bonds, are valued along with tangible results achieved at reasonable (monetary and non-monetary) cost.

The most respected and successful participants in the community economy are those people who are the most skillful at initiating and nurturing long-term relationships. While the formal economy values education and teamwork, players in the community economy are more individualistic and respect the craftsman or artisan, farmer or reformer. There is a resistant attitude toward government and regulatory institutions, with a preference for individual initiative.

In the community economy, the only politics that matter are local politics. It is the issues of local importance - zoning, roads, construction permits, property tax rates, and trash disposal - that spur alliances and create politicking.

Community Economics and Development

With the advent of community economics, two distinct models of employment have emerged. The traditional model is based on the formal sector in which industry is seen as unrelated to community in any meaningful economic sense. People who are not working full-time for pay in a recognized industry are not considered to be employed, and being "unemployed" carries the stigma of not being a contributor to society's economic life. Research based on this model likewise fails to capture economic activity outside the formal sector. This can be seen in the investigation of local employment initiatives done in 1986 for the Australian government. This work counted exclusively the number of full-time jobs created in the formal sector as evidence of successful local efforts to stimulate economic activity.

The community-based perspective, on the other hand, regards "employment" more broadly, including work that is of value to the community, though not directly income-producing. A central notion is the right of people to determine the form that their own work will take, resulting in a broader range of types of meaningful "work" than in the formal economy. Because the types of work counted as "useful

employment” are more numerous, so also is the range of local resources and strategies that can be drawn upon to generate meaningful work. While the goal of economic activity in the formal sector is the creation of wealth, the goal of economic activity in the community model is the “creation of well-being” in the local community. These activities may be paid, unpaid, or may lead to eventual (re) payment. The latter case refers to handicrafts, gardening produce, or social services that move from the level of gifts and volunteer work to the level of being paid with cash, being paid with goods or services of equivalent value (barter), or being counted as “future rights” to goods or services of equivalent value from either the current recipient or his/her family or from the community (a sort of “point system,” perhaps formalized but more often unspoken). In such community-based economic activity, the buyer and seller themselves negotiate the terms of the interaction, limited only by the customs and mores in that local community. Collective bargaining is limited to institutions in the formal economy.

An example of success in employment creation on this community-based model occurred in the British Isles during the recession of 1982. The failure or restructuring of formal sector industries had left a number of capital assets and facilities underused or completely idle. Smaller, more community-based economic activities began which made use of these idle facilities. Economists from various countries came to study how these local initiatives were generating economic activity. These collected processes and activities were dubbed “Local Employment Initiatives” by the OECD.

Examples of community-based economic activities include :

- * flexible employment patterns including job sharing,
- * part-time employment,
- * periodic employment,

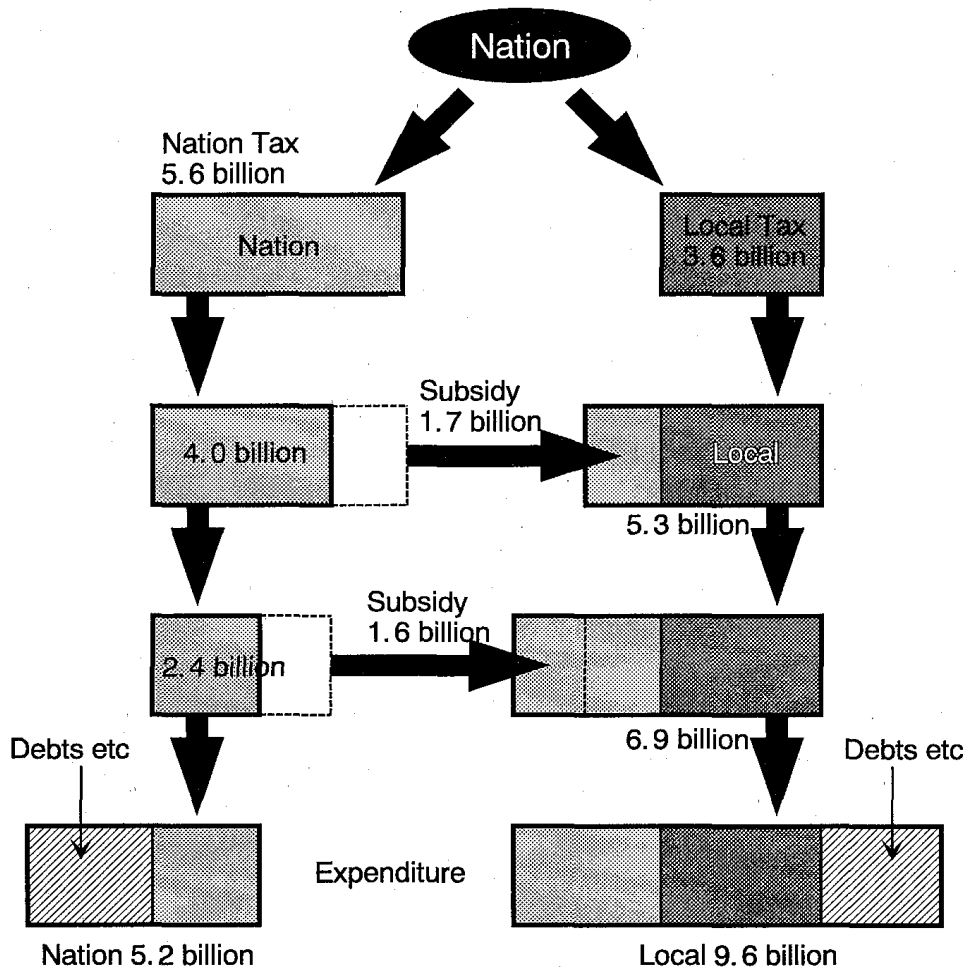
- * new approaches to job design so that the jobs fit more appropriately into the life-style of the individuals,
- * profit sharing and an emphasis on ownership so that employees have a greater stay in the operations of the business,
- * home based employment to fit in with family life,
- * surplus based income generation where activities that contribute to the social or family life are also sold for profit,
- * family businesses and business systems that take into account family life,
- * community businesses
- * use of community resources to generate income.

III Centralized versus Decentralized Policy-Making, Revenues, and Expenditures

Japan represents a rare case in the world with respect to revenues and expenditures at the national and local levels. The national or central government collects most of the taxes. It receives 3/5 of the total tax revenue with 2/5 going to local government, although it is the local governments that shoulder most of the expenditures. Local government has more works and activities than central government. The system works through the mechanism of large money transfers, subsidies, from the national to the local governments.

There is an unfortunate history of local governments building unnecessarily luxurious facilities, well beyond their budgets, and of developing poorly conceived and financially burdensome activities which have resulted in chronic local budget deficits. If local communities want to develop more dynamic local economic activities, they must choose and plan more wisely and stay within their budgets. It may work well to revitalize related businesses in conjunction with the community market. It is important to know that deregulation stimulates market competition but at

Fig2 source : Asahi 99 July 20.

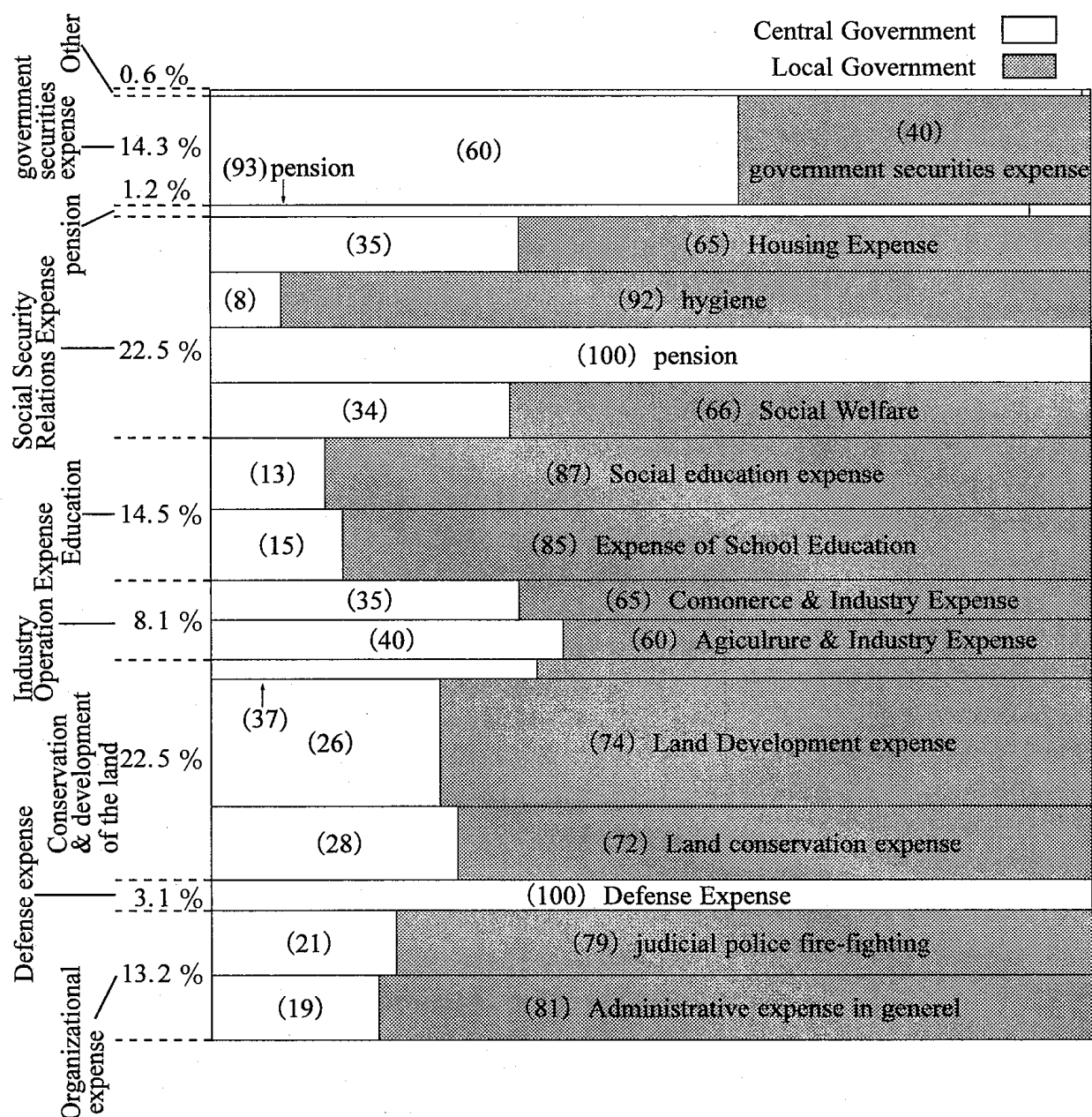


the same time changes the old market. Also it is time now to consider new central and local tax systems. (Fig2)

According to the "National Account of The Detailed Tables II (OECD)" in 1994, Japanese local government expenditure accounts for 13.6% of GDP and 80% of general government expenditures, excluding social security funds, exceeded only by Canada and Germany. Also, Japan shows a fairly high rate of public capital formation which is 7.5% of the national economy. However, local governments show and use more than 80% of capital formation which is 6.4% of GDP. Local government budgets play a significant role in the formation of Japan's social capital. (FIG 3)

The main features of the Fiscal Structure Reform Law are its goals to hold the national and local governments' fiscal deficit to within 3% of the GDP by the

Fig3 Scale of net budget expenditure through Central & Local government
(objective classification)



target year 2003, to be independent of deficit financing bonds by 2003, and to reduce the dependence on public debt to lower than FY1997 levels, while also defining both policies and frameworks for the reform and reduction of fiscal expenditure.

Recentry local government budgets show an imbalance between revenue and expenditure. Taking into account the ratio of current ordinary budget (ratio of personnel

cost and public debts to local tax plus local grant tax), local government deficits are the worst on record. Four major prefectures, Tokyo, Osaka, Kanagawa and Aichi suffer from a decrease in revenue from corporate taxes, resulting in a real balance that is negative (in the red).

In three fourths of all the prefectures in Japan, the ratio of public debts to local tax plus local grant tax was 15% over the warning line.

IV Small Businesses in the Community

Studies have revealed that various factors relate to the degree of success of a business and to how responsible a community member that business is. One factor is the size of the surrounding community and its effect on the degree of attachment or loyalty felt by community members toward a business. There are two schools of thought regarding this topic. The systemic model finds that community attachment is independent of population size. That is, urban businesses can enjoy as much attachment and loyalty from residents as can those in small and large villages. The linear model, on the other hand, finds that the larger the population of a community, the less the attachment, with businesses in larger cities being able to expect only coolness and fickle loyalty from customers. In this atmosphere of indifference, businesses were also found to be less inclined to social responsibility.

A firm's size (Aldrich and Auster 1986) and age (Aldrich and Auster 1986 ; Cragg and King 1988) have been identified as associated with business success, even among small businesses in rural counties (Tigges and Green 1994). According to organizational ecology theory, older and larger businesses are more successful in their interactions with the community. For example, larger, older firms frequently are more successful in attracting skilled employees and also credit with better terms. They benefit from tax advantages and enjoy economies of scale. In addition, some scholars suggest that the size of a business is an important consideration for

business social responsibility because more is expected from businesses with more resources. The amount of local competition is another variable that may influence the relationship between business success and level of community commitment and support. Businesses with competitors may be more concerned about public image than those without.

Certain characteristics of business owners and managers also are related to the success of their business or their level of community commitment and support. Previous research has confirmed the relationship between business success and (1) gender (Tigges and Green 1994; Bastow-Shoop et al. 1995; Kalleberg and Leicht 1991; Loscocco et al. 1991); (2) job-related experience (Bastow-Shoop et al. 1995; Miller and Toulouse 1986); and (3) the age of the owner/manager (Miller and Toulouse 1986; Cragg and King 1988). In addition, the education of the business operators has been identified as significant in determining community and organizational involvement (Hayghe 2991; Smith 1994; Verba, Schlozman, and Brady 1995). Also, whether a firm is managed by a manager or the owner may influence the level of community support and commitment exhibited by the business. Therefore status (owner/manager), gender, years of experience, age, and education of the respondents should be considered when analyzing community business. Finally, a positive relationship has been found between a business's relative success and its degree of social responsibility. These insights should be kept in mind when local government planners develop economic policy.

Small businesses operating in local communities and/or in cities differ from one place to another but the basic starting factors and success factors are fairly constant. The link between business social responsibility as measured by business operators' commitment to and support for their community and the operators' assessment of their success is significant. As a result of their positive net association with

business success, commitment to the community and providing support for the community can be considered strategies for business success. Although the mechanism is still hypothetical and empirically unspecified, it is possible that the higher perceived success reported by socially responsible businesses results from the enhanced loyalty of local consumers and employees, and the more positive evaluation of local lenders, suppliers, professional service providers, potential partners, and government officials. This positive public image may in turn provide some business advantage to socially responsible businesses that is not made available to less socially responsible businesses.

Civic leadership is the one social responsibility variable not associated with business. This may reflect citizens' cynicism toward government.

Conclusion

Community economics is not yet an established field. In spite of this, there have been initial movements to construct hypothetical theory.

In this paper we examine current local problems and recognize that Japan now faces major social readjustments in dealing with demographic realities. These changes will affect production structure, employment system, pension scheme, medical insurance and medication systems, and such areas of daily life as shopping, leisure, sports, garbage collecting, safety and so on.

For small businesses in local communities, we have introduced several variables to explain the relationship between business success and business's social responsibility. Labor absorption mechanisms should be reconstructed in creative, positive ways in order for old communities to once again be given a chance to become re-

vitalized.

From the viewpoint of policy making, the size of local government budgets is important to implement fiscal and monetary policies. The present tax system appears inadequate to support effective policies. Although a flat tax rate is not necessarily correct in the long run, changing the tax system is clearly an urgent priority to effectively deal with the current challenges.

References :

- (1) Aldrich, Howard, and Ellen R. Auster (1986). "Even Dwarfs Started Small:Liabilities of Age and Size and Their Strategic Implications,"
Research in Organizational Behavior 8, 165-198
- (2) Bastow-Shoop, Holly, F., Larry Leistritz, Laura Jolly, Rita Kean, LuAnn Gaskill Cynthia Jasper, and Brenda Sternquist (1995).
"Factors Affecting the Financial Viability of Rural Retail Businesses,"
Journal of the Community Development Society 26 (2), 169-185.
- (3) Besser, Terry L. SMALL business ; SOCIAL responsibility of business
Journal of Small Business Management, Oct99, Vol. 37 Issue 4, p16,14p, 3 charts
- (4) Chrisman, James J., and Richard W. Archer (1984).
"Small Business Social Responsibility : Some Perceptions and Insights," *American Journal of Small Business* 9 (2), 46-58
- (5) Cragg, Paul B., and Malcolm King (1988). "Organizational Characteristics and Small Firms' Performance Revisited,"
Entrepreneurship Theory and Practice (Winter), 49-64
- (6) Green, Gary P. (1994). "Is Small Beautiful? Small Business Development in Rural Areas," *Journal of the Community Development Society* 25 (2), 155-
- (7) Griffin, Jennifer J., and John F. Mahon (1997). "The Corporate Social Performance and Corporate Financial Performance Debate,"
Business and Society 36 (1), 5-31.

- (8) Hayghe, Howard V. (1991). "Volunteers in the U. S. : Who donates the Time?"
Monthly Labor Review, 17-23.
- (9) Houck, John W., and Oliver F. Williams, editors (1996). *Is the Good Corporation Dead? Social Responsibility in a Global Economy*. Lanham, Maryland : Rowman and Littlefield
- (10) Krugman, Paul (1994). "The Myth of Asia's Miracle,"
Foreign Affairs, Vol. 73, No. 6, 62-78
- (11) Loscocco, Karyn A., Joyce Robinson, Richard H. Hall, and John K. Allen (1991).
"Gender and Small Business Success : An Inquiry into
Women's Relative Disadvantage," *Social Forces* 70 (1), 65-85.
- (12) Miller, Danny, and Jean-Marie Toulouse (1986). "Strategy, Strudture, CEO
Personality and Performance in Small Firms,"
American Journal of Small Business (Winter), 47-62
- (13) Muhwezi, Dan R. (1990). Corporate Contributions : An empirical Assessment of the
Underlying Factors among Small Business Organizations.
Unpublished PhD Dissertation, Iowa State University.
- (14) Portes, Alejandro, and Julia Sensenbrenner (1993). "Embeddedness and Immigration:
Notes on the Social Determinants of Economic
Action," *American Journal of Sociology* 98 (6), 1320-50
- (15) Samuelson, Robert J. (1996) "The Good Corporation : R. I. P." in *Is the Good
Corporation Dead? Social Responsibility in a Global Economy*.
Ed. John W. Houck and Oliver F. Williams. Lanham, Maryland :
Rowman and Littlefield Publication., 3-14
- (16) Smith, David H. (1994). "Determinants of Voluntary Association Participation and
Volunteering : A Literature Review,"
Nonprofit and Voluntary Sector Quaaterly 23 (3), 243-263
- (17) Smith, Partrcia L., and Ellwood F. Oakley III (1994). "A Study of the Ethical
Values of Metropolitan and Nonmetropolitan Small Business
Owners," *Journal of Small Business Management* 32 (4), 17-27.
- (18) Tigges, Leann M., and Gary P. Green (1994). "Small Business Success Among
Men-and Women-Owned Firms in Rural Areas,"
Rural Sociology 59 (2), 289-310.
- (19) Uzzi, Brian (1996). "The Sources and Consequences of Embeddedness for the

Economic Performance of Organizations : The Network Effect,”
American Sociological Review 61 (4), 674-698.

- (20) Verba, Sidney, Kay Lehman Schlozman, and Henry E. Brady (1995). *Voice and Equality: Civic Voluntarism in American Politics*. Cambridge, Mass. :
Harvard University Press.