

Economic Development

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Abstract

Economic development is a process aimed at improving the quality of life of the citizens which can be achieved by increasing the national income. This increase includes: increased household income (employee salaries and self-employed profits), and no less important, increased taxes which would facilitate an improvement in the services that citizens receive from government system. To achieve improved quality of life, it is important that the additional income does not simultaneously increase the disparity between rich and poor (which is liable to occur if the main beneficiaries of the increase in income are the financiers and the managerial level). It should also not lead to an increase in unemployment (as sometimes occurs when companies go through a streamlining process), or cause environmental pollution. Additionally, to improve the quality of life, attention must be given to other areas such as education, culture, health, etc. which all require extensive resources, and their development is therefore also a matter of economic interest. The goal of this article is to present the principles and processes required to facilitate economic development without harming other components that comprise the quality of life.

Keywords: Economic development, improving the quality of life, national income, citizen, resources

Introduction

According to the World Bank, local economic development is a process in which the public, the business owners, and third sector organizations join forces to create conditions that are more conducive to promoting economic growth and boosting employment (The World Bank, 2015). All economic development is aimed at improving the citizens' quality of life. Quality of life includes not only classic economic components such as income or rate of unemployment, but also societal components such as education, personal security and poverty, and environmental components (air and water pollution, open spaces, etc.). Local economic development focuses on defined and relatively small, areas. One of the problems that arises from the above-mentioned list is the fact that in many cases, an increase in a specific component is likely to have a detrimental effect on another component. Thus, for example, an increase in the average income will often cause increased environmental pollution, and in many cases may also cause an increase in the rate of poverty¹. This situation illustrates one of the basic rules in economics (and of course also in economic development), that is "There is no such thing as a free lunch" or in other words everything comes at a cost. This cost is not necessarily manifested in monetary terms and may in fact have a social, cultural or environmental component. It is therefore important that economic development is an integrated process that addresses a very wide range of factors that influence quality of life, with the goal of bringing about maximum possible improvement in the citizens' quality of life. According to the United Nations Human Settlements Programme (2005), many factors can affect the quality of life, and it is not always possible to address all factors concurrently. Consequently, one of the very first stages of economic development must be prioritizing the areas that are the most important. This is then followed by an assessment of the best way to improve these areas while causing minimum damage in other areas. The underdeveloped roads system in northern Italy provides a good example of prioritizing and subsequent costs. The state of this roads system does not stem from a lack of financial means (northern Italy is one of the wealthiest regions in the world) but rather from a conscious decision by the Italians to lay relatively narrow roads (with no margins) to avoid damaging open spaces (forests and agricultural land). China provides us with an example of the opposite approach. In order to accelerate growth of production, the Chinese were willing to pay a higher cost in terms of the environment and personal freedom. While we can of course argue about whether or not the Chinese decision is correct, it is clear that had the Chinese wanted to protect the environment more, the national income would have been lower.

¹ The extent of poverty is determined by the gap between the rich and the poor. Consequently, if economic development increases the wealth only of the rich, the poverty rate will increase even if the income of all other sectors does not change.

Various ways to increase

Increased Household Income

In many areas, particularly those that are weak economically, one of the most important changes required in order to improve the quality of life is increased household income. However, the maximum wage that a private sector employer can pay is the "output value of the labor", that is the amount by which the employee increases the income of the enterprise, otherwise it will not be viable for the employer to retain the employee and he will be forced to dismiss the worker¹. A crucial prerequisite for increasing wage-earner income is therefore an increase in employee output value (another term customarily used to describe this process is increased labor productivity), and the real question is how can this be achieved? Theoretically, the answer would be to build more sophisticated, know-how intensive, high-tech production plants which would usually have a higher employee output value. However, such enterprises do not usually survive for any length of time if the work force in the relevant area is unsuitable. Attempts to encourage the establishment and operation of such enterprises by offering grants and tax benefits were usually doomed to failure. These factories would often shut down after a short period of time, and, if they did manage to survive, the profits were low leaving no room to pay higher wages². Therefore, in many cases, setting up enterprises of this type is not a viable solution. Action needs to be taken in two different directions to achieve a real increase in household income over an extended period of time (primarily for wage-earners, but also for the self-employed) – one direction is to improve technology, and the other is to maximize comparative advantages.

Increasing Income by Improving Technology

Definition: Improving technology is any change that will generate improved operation of the production components. Many people associate improved technology with the introduction of the new technologies (computers, robots, or more sophisticated machinery). However, based on the definition above, it is clear that this is only one of the options for improving technology (and not necessarily the most efficient one). There are other and no less effective, ways to make this improvement, such as scaling down the bureaucracy, preventing corruption, a stable governmental system, development of physical infrastructure (sewerage, roads, communications), professional training, etc. With regard to increasing income, improving technology will enable employees to operate more efficiently, which will increase their production output, thereby enabling payment of higher wages³. Sometimes setting up new enterprises can also serve the function of improving technology if the new enterprise is suited to the population's skill set, and enables them to better utilize their professional trade skills. This would of course increase the employee production output and in turn the wage that the employees would receive.

There is another advantage to improvements in technology – usually technological improvements do not negatively impact the environment (as opposed to setting up new enterprises). In fact, in many cases they even have a side effect of improving the quality of life (for example, sewage purification facilitates an increase in agricultural production and also prevents pollution of water sources). Therefore in economic development processes it is important to focus on technological improvements, which will create a better business atmosphere and will also contribute to an improvement in the quality of life.

¹ This analysis is also correct (with slight changes) for business owners. However, because the general population consists mainly of wage-earners (approximately 90%), and also because the wage earners are usually the lowest paid sector, this paper will focus on the income of wage-earners.

² There is of course a possibility that the employees will come from different areas. However, in this case, the enterprise's contribution to increasing the salaries of local residents will be limited.

³ It is likely, of course, that part of the increased income will be transferred to the financiers, although usually, a significant portion of the increased income is also passed on to the employees. If the employers do not share part of this increased income with the employees, it can be said that the technological improvement did not achieve its objective and that employee moves to organize trade unions in the enterprise is justified. Herein lies the claim that the existence of trade unions can have a positive effect on the economic development process (on the condition, of course, that they do not demand wages and conditions that exceed the employee production output.)

Increase in Income by Utilizing Comparative Advantages

One of the most important points that need to be taken into account throughout the entire economic development process is the comparative advantage. According to a simple definition of this concept, a comparative advantage is the ability to produce better quality products and/or at a lower cost than those of other manufacturers. Examples of factors that can contribute to the comparative advantage include location (proximity to markets and/or to raw products), availability of natural resources (proximity to the sea in the case of tourism), and of course the human capital, which in recent decades has contributed enormously to generating a comparative advantage. The value of the human capital is found in both the level of education (particularly in the field of technology) and in other areas that we will address later in this article.

The economists' basic assumption is that economic activity cannot succeed over time if it is not based on a comparative advantage. On the other hand, the correct utilization of this comparative advantage can increase the number of employees and businesses, and also the wages, two actions which generate an increase in the household income. One of the questions that arises at this stage of the discussion is: What should be done when there is no comparative advantage? The answer is that in every country, there is always a region or settlement that has a comparative advantage. We will present several examples to explain this subject (which when first raised frequently generates many questions and counter arguments).

Example A – Land Costs: In places with a comparative advantage in fields such as tourism or technology a large number of economic functions will be established (such as hotels, high-tech companies, research institutes, etc.), which will increase the demand for land and therefore drive the price of land upwards. On the other hand, in places that do not have a comparative advantage of this type, there is not much demand for land and consequently, land costs will be low. Under these conditions, the land in this place will be readily available and inexpensive, and therefore suitable for businesses requiring large expanses of land such as shopping malls which also require large parking areas, and production plants which require large production halls and warehouses for storage. It is easy to see that the disadvantage of these areas in fields such as tourism and technology actually becomes a comparative advantage in terms of land prices and availability which can then be utilized for economic development. While it is indeed reasonable to assume that resident incomes will be higher in areas with a comparative advantage in the fields of tourism and technology, those people who live in areas without such a comparative advantage have no alternative other than to utilize to the maximum what they do have.

Example B – Wages: Places with a high level of technological education usually have a comparative advantage in the technological field which attracts sophisticated high tech companies (that are know-how and technology intensive) which pay high salaries. Places with a low level of technological education are unsuitable locations for companies that pay high salaries. However, such places do also offer a certain comparative advantage because the low wages paid are an advantage in high-tech industries and they can therefore specialize in producing simple products. China, which provides a good example to illustrate this situation, utilizes its cheap workforce to produce a major part of the textile products used throughout the world. Although specialist labor-intensive industries do not enable payment of higher wages (the increase being the main objective of economic development) the question to be asked is what alternative do these countries have? Although the wages paid today to a Chinese laborer are significantly lower than the acceptable rate in developed countries, the question is what would happen in China in fields such as life expectancy, infant mortality or hunger, if all these labor-intensive factories did not exist.

Another question that needs to be asked is what will happen in places such as China in the long term? Some of us are old enough to remember that until 40 years ago the Japanese specialized primarily in the manufacture of cheap products (in some ways reminiscent of the Chinese today). In those days, if you wanted a good quality car, you would buy a European or American vehicle. The Japanese cars (along with their watches and televisions, etc.) were bought because the price was low due to the relatively low wages paid to the Japanese laborer. In other words, the Japanese advantage could be seen because, relative to ability, the wage paid to the Japanese laborer was quite low thereby enabling the Japanese market to produce cheap, good quality products. This situation led to the rapid development of the Japanese economy and enabled the standard of living to improve within a relatively short period. However, the Japanese success story did not end here. Economic development is frequently accompanied by a very important side-product. In the case of Japan, it was the improved level of education and technological capability within the workforce. Thus, within several decades, Japan's comparative advantage shifted from low-cost labor to employees with a high level of technological skills. This enabled the Japanese to move on to the production of more sophisticated and better quality products, thereby increasing the employee production output value and the salaries. Production of more simple products was transferred to other countries such as

Korea or Malaysia, which were also undergoing a similar developmental process, and today low-cost production is centered in China. However, if the process described above continues, within a relatively short time Chinese wages will also be increased.

The conclusion that can be reached from both these examples is that in order to raise the household income to its maximum level, economic development must be based on the existing comparative advantages. This has always been true, but never more so than today with the globalization process, which has shown that those who do not have a comparative advantage will disappear from the marketplace. In some cases, steps aimed at creating a comparative advantage can be taken. For example laying railroad tracks for production plants requiring transportation for heavy goods, increasing the technological education, etc. But usually actions intended to generate a comparative advantage take a great deal of time to implement, are very costly, and there is no guarantee that they will actually generate the comparative advantage as planned. Consequently, at least in the initial stages, it is important to identify the comparative advantages of the place that is intended for development and to base the development on these advantages. The role of government assistance in this process is to enable the stakeholders to utilize the comparative advantages and to help them start up the development process. Past experience around the world and also in Israel shows that in most cases attempts to implement projects that do not have a comparative advantage and which are based on government support (for example from incentives and tax benefits) do not achieve their objective.

Effect of Increased Means of Production on Income

One of the first steps considered in the context of economic development is investment in new enterprises or expanding existing production plants. But investments of this type are not always effective and in many cases it is likely to become clear that it is actually a waste of resources. To explain this subject, we will divide the means of production into two main components: one component is **Labor**, and the term **Capital** is used for the other component which includes machinery, buildings and equipment. Setting up new businesses or expanding existing businesses is equivalent to an increase in capital. And frequently economic development programs do indeed focus primarily on searching for ways to increase the amount of capital. However, there are a number of problems with this approach. The first problem refers to the concept of diminishing returns on capital. This concept can be explained with the example of a manufacturing plant that is based on employees and machinery. If we increase the number of machines, and leave the number of employees at the same level, then when there are few additional machines, each one will generate a significant increase in production output. However, if there is a large number of additional machines, at a certain point the employees will no longer be able to handle all the machines and the additional output generated by each additional machine will gradually decrease until at some point additional machines will not increase production at all because there are not enough employees to operate them. In this case, the addition of more machines without making additional changes in the system will not increase production¹. In many cases, economic development is stopped because of the fact that there are too many machines and marginal productivity is calibrated². Under such circumstances, there is of course no point in making additional investments in machinery and equipment or in setting up new factories of the same type. The route to economic development lies in achieving technological improvements or better utilization of the comparative advantages.

Economic Equilibrium

Another problem which should be taken into account when assessing the viability of encouraging additional investments relates to the concept equilibrium. The basic assumption in economics is that usually the economy is in a state of equilibrium, in other words supply equals demand for each product. This is important because in normal circumstances, everything that the consumer wants and can afford to buy has already been produced and it is therefore not feasible to set

¹ Note: the increase in the number of machines must be stopped before the output of each machine is calibrated because the growth must be halted at the stage where the increased output is less than the cost (economic, social, and environmental) of the additional investment.

² Note: it is not always easy to identify that the problem is the excess machines and equipment, because this situation may also include (even fairly extensive) unemployment. This unusual situation is likely to stem from the fact that, for various reasons, the unemployed are not suited to work in the existing types of businesses.

up additional businesses. (Although this sounds a little strange, this is indeed the situation, and if you check the restaurants and shops that spring up every other day in our area, you will find that a large number of them close within a short period of time). According to this approach, there will be additional economic activity only if a change in this market has occurred. Such changes may be increased consumer income (leading to increased purchasing and therefore also increased production), change in behavior (for example, parents investing more money in supplementary education which would lead to operating additional after-school activity groups), or price increase of other products (increased vacation costs in Turkey, will lead to growth in the domestic tourism industry in Israel). Equilibrium as described above is significant because, before initiating the establishment of new businesses or the expansion of existing enterprises, it is important to verify that there is actually a demand for the proposed products.

The removal of bureaucratic obstacles is another very important factor that can facilitate increased production when the economy is in a state of equilibrium and the marginal productivity of capital is low. For example, delays in receiving building permits are likely to cause delays in setting up new businesses for which there is a demand (for example, hotels in popular tourist areas). In this case, the removal of such obstacles will facilitate production growth and will generate additional jobs. Foot-dragging in the legal system or poor personal security also constitute obstacles which, if removed, would encourage commercial enterprise.

Local Economic Development using Strategic Planning

Strategic planning is a dynamic process aimed at helping organizations to define their goals, to set priorities, and to develop courses of action that will enable them to achieve these goals, based on cooperation between all the stakeholders both in the organization or those associated with it. Local Economic Development using Strategic Planning is a process that utilizes strategic planning to improve the economic situation of the local authority or of a group of neighboring local authorities. It is important to note that when dealing with economic development, it is not enough to only address the classic economic areas such as increased income and employment opportunities. Other areas that must also be addressed include health, environment, level of education, personal security, poverty, etc. because these areas are important not only due to their effect on the quality of life of the residents, but also because they are crucial to success in the economic fields.

The strategic planning process includes the following key characteristics:

1. Detailed definition of the program goals and determining the course of action are part of the process. In other words, the goals are not defined and dictated in advance. Instead the planning body must define the goals as part of the planning process.
2. The planning process is dynamic. In other words, the process does not end with implementation of the program but continues simultaneously alongside the stages of implementation; the outcome is constantly assessed, and planning is reviewed and changed as required.
3. All parties and stakeholders that are expected to be involved in the implementation and/or who might be affected by the plan participate in the planning process and implementation, for the following reasons:
 - a. The basic assumption is that the local residents are the people who are most familiar with the conditions and needs of the local authority or of the region¹;
 - b. The success of the program requires the cooperation of all parties and stakeholders. Cooperation can only be achieved if the stakeholders feel that they can influence the planning and that they are partners in developing the plan;

¹ Israel has a long history of highly detailed and "professional" economic and geographic planning which ultimately failed because the local population was not partners in the planning. The development towns provide us with a good example. Contrary to general opinion, the development towns were established as the result of a highly detailed and organized planning process. For many years, the government invested numerous resources in these towns (more than in any other population sector in Israeli society). The failure of these development towns can be attributed to, among other causes, the fact that these towns were always designed and supervised by professionals living outside of the town itself, and who it seems were unable to adapt the planning and development to local conditions.

- c. The program should be run by the residents both during the planning stage and during the implementation. This would save on expenses and would also focus the local authority's resources on the development itself rather than wasting valuable resources by outsourcing to other parties.
4. The planning must also address long-term objectives. In fact, one of the functions of strategic planning is to provide the local government with a break from dealing with day-to-day operations, and to enable those involved to take a broader look at matters.
5. Strategic planning aimed at economic development must also deal with improving the quality of life because frequently decisions in the private sector about where to invest depend on the quality of life. Potential entrepreneurs will not want to establish new businesses in run-down and neglected locations because the various professionals who are critical to running the enterprise will not want to live in such areas. Therefore local authorities that are going through a process of strategic planning must consider the advantages their region has to offer in terms of quality of life and do their best to promote these advantages. For example, in smaller areas they can foster community activities, and in larger towns and cities, they can develop cultural centers for entertainment and commercial centers. One such example is the emphasis placed on community life in Misgav; and another good example is the development of unique areas in Jerusalem such Nachla'ot, Nachalat Shiv'ah, etc.

Strategic Planning Stages

According to a document issued by the United Nations (2005), the local development process based on strategic planning consists of 10 stages as follows:

1. Initial stage: the first step assesses the ability and resources of the local authority and whether it is ready to go through the strategic planning process. Following this assessment, the geographical area (which may be a number of neighborhoods, the entire local authority, or several neighboring local authorities) to be included in this planning process must be determined. Additionally, it is important to check whether it is preferable to work with an external party or whether the strategic plan should be implemented independently.
2. Enlisting the cooperation of various stakeholders: As mentioned above, enlisting the cooperation of the other stakeholders is crucial to the success of strategic planning. Consequently, before beginning the planning itself, a consensus must be achieved in both the political system and among those stakeholders who may be affected by the planning (business owners, administrators, and various public figures) regarding the need to implement the program.
3. Situation analysis: involves gathering data on the existing situation in the relevant fields (economy, demography, environment, etc.), and building an economic profile for the local authority or the group of local authorities participating in the program. Additionally, at this stage the strengths and weaknesses of the system are identified. It is important to remember that detailed data gathering can be a very costly process. It is therefore usually necessary to compromise on the accuracy and detail of the data in order to save money for the next stages.
4. Defining the vision for the system: the vision should answer the question: Where do we want to go? This provides a brief description of the future that the program is striving to achieve.
5. Defining objectives and priorities (that is prioritizing the objectives): usually it is not possible to achieve all the objectives that comprise the vision defined in the previous stage. We must therefore break the vision down into a number of defined objectives which are then prioritized according to importance (knowing that some of them will not be achieved). It is important to define the objectives in such a manner so that their success can be evaluated; in other words, so that it will be possible to determine with a high level of objectivity if the objectives were achieved.
6. Selecting possible strategies for achieving the objectives: at this stage, it is necessary to determine in detail what actions will be taken in order to achieve the objectives. This is the beginning of the practical stage of the program where we define what must actually be done.
7. Selecting the course of action: for every action or group of actions that was selected in the previous stage, it is necessary to define exactly what must be done, when it must be done, and who is responsible for each stage. The

course of action must be attainable within the timeframe, the budget, and the political conditions under which the program is operating.

8. Implementing the program: to implement the program, we must make the tools required official either by establishing special departments that will deal with this matter, or by creating positions and areas of responsibility for existing bodies. It is important to take into account the possibility that clashes will occur between the various parties involved in the program, and to try to plan in advance the required response to such problems.
9. Monitoring and evaluation: one of the key characteristics of strategic planning is that the program is dynamic. In other words, performance must be monitored in order to evaluate if it is necessary to make changes in to the program.
10. Adjustment and modification of the program based on findings from the previous stage.

The Importance of Local Economic Development

According to Andrew and Goldsmith (1998) during recent decades a process has occurred in which functions and economic and other activities have been transferred from central government to the local authorities. This change stems mainly from the fact that according to mainstream economic thought in the western world, the government system is a large and cumbersome body that operates in a wasteful and inefficient manner. Consequently, many areas that were previously controlled by the government are now transferred to other bodies. Some of these activities have been transferred to the private sector in a process known as privatization. However, some activities cannot come under the auspices of the private sector (public goods, and activities that will have an external effect). The solution is therefore to transfer those same activities to bodies that are smaller than the government, in other words, to the local authorities. According to this approach, the local authorities have a better understanding of matters in the field and also a greater commitment to the residents, and can therefore perform these tasks in the best possible manner. In the strong, well-established, and most importantly, highly organized local authorities, this shift of responsibility has proved to be the correct move. The objective of economic development through strategic planning is to improve the situation in those local authorities that struggle to fulfill the abovementioned tasks.

Another reason for the high importance of the strategic process is the fact that local economic development is likely to be a Zero-sum Game; in other words, an improvement in one local authority is likely to occur at the expense of another local authority. An example of this is the case in which a specific local authority establishes a new industrial zone, and competes for funding and new projects against the industrial zones in the neighboring local authorities. In such a case, not only is the success of the new industrial zone likely to come at the expense of the older industrial zones, but also the competition for resources and unnecessary investments in infrastructure are likely to cause the new industrial zone to fail while simultaneously destroying the established industrial zones. In a case such as this, the strategic process could lead to the correct division of resources whether through the joint operation of one industrial zone or through a logical division of projects between the local authorities (for example, one local authority could establish an industrial center while the other local authority could establish a commercial center). Conflicts of interest such as these could occur between both the local authorities and between stakeholders within the local authorities. In this situation, a strategic process involving all the relevant parties could help to resolve the problem.

According to Leigh and Blakely (2013), a number of changes have occurred in the world economy during the last 30 years, which have transformed local economic development using strategic planning into a very important factor. These changes are:

1. Globalization: the ability of production units and factories to transfer from one location to another means that production and manufacturing capabilities that are not competitive will not survive. On the other hand, globalization enables those who are successfully competitive to develop further.
2. Increased rate of change: Both technologies and types of product change rapidly. Manufacturers and employees need to adapt to these changes. Employee skills will not give them an advantage for a whole lifetime. They must acquire additional new skills or at least frequently update their current skills.

3. **Effect of technological development on demand for employees:** technological development has led to an increased demand for employees with technological or administrative capabilities, and to a decrease in demand for all other types of skills. Consequently, there has been a dramatic increase in salaries for the first group, and a decrease in employment opportunities and salary for all the others. Those with technological skills find it easier to move from one location to another (and sometimes from one country to another). This increased mobility is likely to generate a situation where local or regional authorities find that their areas are populated by low-income residents. The local or regional authority then finds that its income from local taxes has decreased considerably which in turn leads to a cycle of economic and social decline.

These three changes have caused the economic system to change more rapidly than it did in the past. Consequently, the economic planning of the local authorities must also be in a constantly dynamic state all the time, and must also take into account all the social, demographic, and economic components that may affect its state. In other words, the economic planning and development must be based on strategic planning processes.

Another change that has occurred during the last three decades is that while in the past the local government (and sometimes even central government) was actively involved in setting up and running economic projects, today the local government has taken on more of a role as an enabler. This means that the local government is no longer directly involved in setting up factories and running economic projects, and is instead responsible for creating the right conditions and atmosphere that will attract investors and entrepreneurs to be active in the area. This change also stems from the concept that in general, government activities are ineffective and therefore the role of the government is to generate conditions that will enable the free market to operate successfully. Previous attempts throughout the world and in Israel have shown that when the government selects the projects to be established and also their exact locations, and encourages entrepreneurs to set up the projects by offering grants and other financial benefits, a considerable number of the new projects were found to be unsuitable. These projects prove to be unsuitable because they are not long-lasting and also because they are unable to advance the local authority where they are located. In many cases, it also became apparent that the main beneficiaries of the financial benefits given by the government in development areas were not the development town residents, but rather the entrepreneurs who on the whole were wealthy in their own right and who lived outside of the area that is intended for development¹. Other studies, for example by Lester (2003) found that in the opinion of the entrepreneurs, incentives in the form of reduced taxes were actually effective in terms of economic development. While in the short term the amount of taxes declined, over time the ongoing economic development would eventually increase the taxes to their former level. Although it seems that there is room to encourage economic development through tax benefits, such a move must be made very carefully and accurately, so that it will only encourage suitable projects (in other words those that offer a comparative advantage).

Additional Notes

Another characteristic of economic development today that is worthy of note is the importance afforded to local entrepreneurs, who can with a relatively low investment set up small businesses that will provide them and perhaps a small number of local residents with employment. Although the contribution of each such business on its own is small, if favorable conditions are created to accommodate a large number of these small businesses, then the economic situation could be greatly improved. A good example of such a case is the development of authentic tourism in distant and undeveloped locations which, at this stage, would not be a suitable location for any significant industrial development. The development of tourism in such areas is based on local cuisine, traditional handcrafts, or guest accommodation of a simple standard. This type of development does not require huge resources or complicated planning, and does not take up a lot of time. It is therefore suitable for the first stage of economic development. While the number of people that might be employed in such activities is limited, and the income is not particularly high, it can serve as a basis for future development of a higher level of tourism or as a springboard for transitioning to a different type of industry.

One important aspect of economic development is the increase in total income for all residents in the local authority. Such an increase not only improves the standard of living of the residents, it also increases the amount of money they will spend

¹ The carpet manufacturing facility in Or Akiva owned by Avraham Shapira is a good example of this. For many years the government invested more and more resources in this factory. In addition to these investments, they also set very high customs duty on imported carpets in order to protect the factory and its products and to provide work of a low technological standard for low wages. This situation simply reinforced the difficult conditions of the work force in the area instead of advancing them.

within the local authority. This in turn leads to increased economic activity for local businesses, which increases employment opportunities. Increasing the total income of all residents in the local authority requires businesses to sell their output to people living outside the local authority region. It is therefore important to encourage businesses that are oriented to the population outside of their own towns.

Another area that could contribute greatly to the local economy, although its development involves a long and difficult process, is resident participation in operating the civil system. This participation could include involvement in cultural activities which are administered on a voluntary basis by committees, non-profit organizations that are involved in helping residents who are experiencing difficulties, volunteers in the civil guard, or even residents planting public lawns in central areas. These activities not only foster a sense of belonging and wellbeing among the residents. They also provide an added benefit of cost savings, and free up local authority resources that can be invested in providing additional services. In small settlements with a homogeneous population, such activities come naturally and can be organized with relative ease (in some cases, the population already operates in this way, and the role of the local government is to provide assistance). However, in large settlements or in settlements that do not have a homogeneous population, this option is somewhat more complicated and it is at this point that the main advantages of the strategic planning process come to the forefront. As mentioned above, by the very nature of this process numerous and large groups of local population are meant to be involved in this process. This involvement is intended to foster a sense of belonging and responsibility among the residents as they are taking the first step on the path to involving the local population in operating the civil system.

As demonstrated by the abovementioned pointers, economic development using a strategic planning process is a long and complex process that requires the cooperation of numerous parties in the local authority (and sometimes also from outside the authority). Consequently, according to Aizencang-Kane (2010), in order for the process to succeed, the heads of the local authorities must be involved in the process. They must lead the process and demonstrate leadership and determination to overcome the problems which will, without doubt, pop up over time. On the other hand however, they must also be flexible enough to accept the conclusions that will arise from the process even if these conclusions do not exactly jell with the policy planned in advance. It can therefore be said that the strategic thinking and planning process is linked to the subject of municipal democracy. Municipal democracy which considers not only the matter of elections every five years, but also the concept of participatory democracy, in other words the involvement of residents in the decision-making process. This involvement causes the establishment to relinquish some of its power in the decision-making process for the benefit of the residents. Local authorities that embark on the process of strategic planning must be aware of this need to relinquish some of their power.

Conclusion

Economic development is a process aimed at improving the quality of life of the citizens. In this process, one must take into account that an increase in a specific component of quality of life is likely to harm other components. This situation illustrates the basic rule in economics that everything has its price. It is important to remember that in our case, the cost is not only monetary expenditure, but may also be in social, cultural or environmental costs. (For example, establishing an industrial zone may damage the open spaces, which are very important in terms of quality of life.) In this paper we have presented the fundamental principles and the main processes required to facilitate an improvement in the economic status without harming the other components that make up quality of life.

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