



East Meets West in an Entrepreneurial Farming Village in Japan: Endogenous Development Theories and Economic Gardening Practices

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In this paper, I discuss one possible link between entrepreneurship and economic growth at the municipality level. I compare “endogenous development” theories developed separately in Europe and Japan to create community-based economic growth and to maintain local resources and industries. Japanese theorists pay more attention to the contribution of entrepreneurs. I relate endogenous development theories to the “economic gardening” approach introduced in an American city, practiced in many cities inside and outside the United States, and consistent with endogenous development theories in that it encourages the growth of local business. To demonstrate the validity of the application of endogenous development theories and the economic gardening approach in Japan, I introduce a case study of rural economic development in Ogata, a Japanese farming village, that involved significant achievement by entrepreneurs. I conclude that entrepreneurship matters in local economic development, because entrepreneurs with proper support mechanisms function as effective change agents in the economy.

The authors of a college textbook on principles of economics explain that there are four types of production resources in an economy: physical and human capital, labor, land/natural resources, and entrepreneurship.¹ Economies grow more rapidly with the full exercise of entrepreneurship. Neoclassical macroeconomists, however, do not have a unified view of how entrepreneurship would grow output in an aggregate production function. Entrepreneurship may contribute to the improvement of productivity through innovation, or it may transform the industrial structure by

¹ Robert E. Hall and Marc Lieberman, *Economics: Principles and Applications*, 3rd ed. (Cincinnati, Ohio, 2005).

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creating markets without government intervention. Despite the diversity in theoretical views, recent surveys such as that conducted by the Global Entrepreneurship Monitor show that there is a positive correlation between entrepreneurship and economic development.² This would be applicable not only at the level of the national economy, but also at the regional or municipality level. In an environment established to encourage and develop entrepreneurship, a rural economy could grow without major increases in capital and labor.

In this paper, I discuss one of the possible links between entrepreneurship and economic growth at the municipality level. First, I compare endogenous development theories discussed by sociologists and economists in Europe and Japan, and relate these theories to the “economic gardening” approach. Economic gardening, introduced in an American city in the 1980s, has been practiced in many U.S. cities and in some other countries. Then I discuss an endogenous development case study of a Japanese farming village where innovation and promotion of entrepreneurship were emphasized. Because the effectiveness and the applicability of the programs and the promotion of entrepreneurship at a micro level have not been widely recognized in Japan, this example provides a new perspective on strategies of local business development.

Comparing Endogenous Development Theories

Endogenous *development* theories, unlike the endogenous *growth* theories discussed by macroeconomists, emerged in Europe, North America, and Japan in the mid-1970s. Sociologists and economists proposed the theories in their attempts to create models for community-based economic growth that would maintain and enhance local resources and industries. They criticized previously used exogenous strategies for massive centrally planned development, which brought in resources external to communities and did not actively involve local community members in the decision-making process. In Japan, a common strategy has been to develop industrial and business parks and to provide incentives to attract business, increase employment, and develop the local economy. Attracting business to local sites remains a strong option for regional economic vitalization.³ Using the language of a fable, the strategy is similar to creating a pond to attract migrant birds that lay golden eggs. Local communities could obtain the benefit of the golden eggs so long as the birds stay in the pond. This strategy becomes less effective when there are similar ponds in many places, and a detriment to the community owning the pond, because

² Niels Bosma and Rebecca Harding, *Global Entrepreneurship Monitor 2006 Results*, 12. Downloaded on February 28, 2007, URL: <http://www.gemconsortium.org/>.

³ Hidehiro Tokumasu, “Senryaku-teki Ricchi ni yoru Chiiki Kasseika” [Regional Economic Vitalization through Strategic Business Attraction], *Keizai Sangyo Janaru* [Economy and Industry Journal] 428 (Dec. 2006): 22-25.

economic globalization makes it less costly for birds to choose other ponds that are more attractive.

Monica Diochon summarizes five factors that contributed to the policy shift from exogenous to endogenous approaches:

- governments with tight budgets searched for more cost-effective alternatives;
- economic environment became more unpredictable on the national or regional level;
- many large industrial firms underwent restructuring and change strategies, increasing both the number and the interdependence of stakeholders;
- there is a growing perception that traditional policies have not produced the expected results; and
- industrial development in some European regions exhibited territorial diffusion and a greater role for small firms, suggesting that spatial differences in institutional, social, cultural, and political factors within nations and regions interact to influence the nature and scope of economic development.⁴

Antonio Vázquez-Barquero provides a good review, especially of the European literature. He identifies four roots of European endogenous development theories (see Table 1 for a summary). The first is the “high theory of development,” which looks at externalities in local economies that bring increasing returns to scale. The second is a dualistic growth theory that involves capital accumulation during the growth process. The third theoretical root is dependency theory, which explains the dominated position of the peripheral economies. Endogenous development theory and dependence theory share the view that technological dependence restricts economic growth and that connection with the center would promote economic growth in the peripheral economies. The fourth root is a territorial development theory that focuses on local initiatives and local control of development process. Finally, Vázquez-Barquero concludes:

endogenous development pursues the satisfaction of local needs and demands through active participation of the local community in the development process. This development strategy not only proposes to improve the production side (agricultural, industrial, services), but also to promote social and cultural dimensions that affect the well-being of society.⁵

Although all endogenous development theories share the same major concepts, there are some differences between the Western and Japanese theories, the largest being in the interpretation of the source of local

⁴ Monica C. Diochon, *Entrepreneurship and Community Economic Development* (Montreal, 2003), 13.

⁵ Antonio Vázquez-Barquero, *Endogenous Development* (New York, 2002), 22.

