

## Economic Development

By Dr. David Kolzow

### A MISUNDERSTOOD PROFESSION AND PRACTICE?

An increasing amount of attention is being given to economic development issues in the U.S., especially in light of recent election rhetoric and various forms of social and economic unrest. This is triggered by the reduction in labor force participation, income inequity, stagnant wages, loss of manufacturing employment, competition for business investment, questions about incentives for attracting new companies, etc. Policies to address these issues and others will depend upon a better understanding of what economic development really is and how to more effectively address it. This article is meant to help introduce that discussion.

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# economic development

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*Economic development, whenever and wherever it occurs, is profoundly subversive of the status quo.*  
Jane Jacobs in *The Economy of Cities*

As much as the term “economic development” is in the press and voiced by government officials, one would think that everyone knows just what it is. That does not appear to be the case, however. Misconceptions about the nature of economic development are leading to failed policy decisions and misallocation of limited public resources. On the other hand, if economic development is done correctly, it can truly bring about a positive change in the economic dynamic of a state, region, or community.

## WHAT IS ECONOMIC DEVELOPMENT?

So just what is economic development? Economic development is both a process and a set of desired outcomes.<sup>1</sup> The desired *outcome* is a sustainable increase in living standards. This generally is defined as increased real per capita income that is fostered through a *process* that leads to an improvement in the productivity of existing firms and their workforce. In other words, economic development is driven by private businesses, and their profitability is fostered through appropriate investment in the community by state and local government.

Increasing the local standard of living usually requires an economic shift toward higher-value economic activities, and the improvement of the local economy should be reflected in a positive change in the local quality of place. Increasingly, maintaining or improving the natural environment is another important dimension of this process. What makes economic development often difficult to understand is that it is a concept as well as a process that is a series

of activities taken to induce positive change in the local economy. It is also a professional practice that doesn't have a strong academic foundation in the U.S. beyond the training provided by the International Economic Development Council, the Economic Development Institute, and various state and professional organization initiatives.

Unfortunately, the terms “economic growth” and “economic development” often get used interchangeably, which can add to the confusion. However, a significant difference does exist. Economic growth can simply involve absolute change in the economy and/or an increase (or decrease) in economic output, but that does not necessarily translate to an improvement in the standard of living (as often measured by per capita income) or in the quality of life. For example, more jobs coming into a community that pay low wages do not necessarily improve the income levels of the workforce. A population boom could result in overtaking existing infrastructure and educational resources. When a town continues to expand without careful planning and development, problems can emerge in many ways: political disputes, higher taxes, increased traffic, urban sprawl, and a lost sense of community. Sound familiar?

In other words, expansion of the economy means getting bigger; development means getting better, which may or may not involve expansion. This is no mere semantic distinction. Many com-

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## A MISUNDERSTOOD PROFESSION AND PRACTICE?

An increasing amount of attention is being given to economic development issues in the U.S., especially in light of recent election rhetoric and various forms of social and economic unrest. This is triggered by the reduction in labor force participation, income inequity, stagnant wages, loss of manufacturing employment, competition for business investment, questions about incentives for attracting new companies, etc. Policies to address these issues and others will depend upon a better understanding of what economic development really is and how to more effectively address it. This article is meant to help introduce that discussion.

munities have wasted a lot of time and energy pursuing short term growth because that's what they thought they needed, when what they really needed was long term development leading to a sustainable healthy economy and an improved quality of place.

### STRIKING A BALANCE

The challenge is to strike a balance between safeguarding what we all like about the area we live in while also increasing the tax base so that state and local government can continue to invest in sustaining and building its economic capacity. How is that accomplished? In simple terms, the solution is to get more income into the area that can offset the costs associated with living and working in that area.

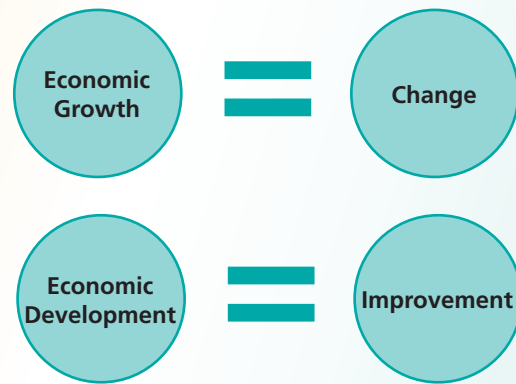
The desirable solution would be to increase the number of tax-paying businesses and the average salary of the employees without negatively impacting the quality of life of that community. What many people in a community don't realize is that residential development does not typically generate sufficient tax revenues to pay for the public services it requires. By contrast, commercial and industrial development projects usually pay for themselves and produce net tax revenues in excess of the costs for needed public services.<sup>ii</sup>

Generally, the long term development and improvement of a community involves a number of issues that don't seem directly related to business attraction and expansion, such as ensuring the availability of affordable housing, protecting public safety, creating uncongested traffic flows, and improving employment, health, cultural, and educational opportunities. However, the resolution of these issues is unlikely to happen without the infusion of higher wages, increased business investment, expanded capabilities of the local workforce, investment in infrastructure, etc.

Clearly, communities need to create a healthy and sustainable economy. Business failures, loss of jobs and population, lack of opportunities for young people, deteriorating infrastructure, loss of hope...these are some of the daunting problems of a declining community. Many rural economies, for example, lack economic diversity. They are focused too much on one or two economic sectors such as timber, agriculture, or manufacturing. Such communities may seem prosperous until the international economy makes a slight "adjustment" and their

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### ECONOMIC GROWTH VS. ECONOMIC DEVELOPMENT



products are no longer worth more than the cost of production. The greater the variety of industries in a region, and the more dispersed the regional employment among these industries, the less likely a region is to suffer severe economic decline, according to J.C. Dissart.<sup>iii</sup>

### FALLING VICTIM TO THE SIREN SONG OF BUSINESS ATTRACTION

When a community's basic industry is threatened, the usual response is to call for economic development – *any* economic development. Local government officials come under intense pressure to do *something*. Residents want to see action. Traditionally this has translated into a single, cure-all strategy: namely, business recruitment. This has often been termed "smokestack-chasing." Chambers of commerce and development groups across the country commonly fall victim to the siren song of business attraction.

Business recruitment was one of the key driving forces in early economic development programs. In the mid to late 70s, improved road systems, reduced need for skilled workers, and generous state tax incentives made it possible for southern economic development agencies to recruit expanding and new manufacturing facilities to their areas. The competitive advantages that cities like Detroit once had were no longer enough to promote expansion of local companies and, to some extent, weren't even enough to retain existing companies.

Meanwhile, economic development practitioners in the South focused on making contact with companies in the Midwest and Middle Atlantic areas, and pitched them to move to their communities. Industrial parks were built in anticipation of these moves, providing new sites for new facilities, and attractive tax and worker training incentives were made available. Companies evolved that provided site selection assistance to relocating and expanding industries, such as The Fantus Company that basically began this practice in the 1930s.

If communities knew the odds they were facing, they would soon realize that business recruitment alone isn't enough for a healthy sustainable economy. Each year some estimated 12,000 to 15,000 economic develop-

Whether it chases smokestacks or superstores, a community pays another price that is impossible to measure: namely, lost opportunities. By the time residents realize they've squandered precious time and money on inappropriate recruitment efforts, years may have been lost. These are years when the community could have been pursuing more practical and sustainable development options.

ment organizations (the number depending on the source) from large and small cities pursue perhaps 300 to 500 (or more) major plant sitings (again, the number depends upon the source). This translates in simplest terms to approximately 50 communities chasing after each new major facility.

To stay in the running, communities often give away land, infrastructure, and tax breaks, or offer special exemptions from regulations. The "modern" era of incentives began in 1936 when Mississippi enacted a Balance Agriculture with Industry (BAWI) program to lure industry and establish a balance with its farm economy. This high stakes game still continues. It's not uncommon for a competing government to offer an incentive package worth millions of dollars and still lose the bid. Though lesser amounts may be offered to smaller firms, very few smaller communities or rural regions can play at this level.

If a community does manage to bring in a major new business, the reality of the derived benefits may not match the expectations. Often, promised jobs simply don't materialize. If jobs are created, they may last only a few years until the industry is offered an even bigger giveaway somewhere else or finds itself no longer profitable, leaving behind unemployed workers and a precarious tax base. Meanwhile, incentives can become a problem if existing local businesses begin to demand similar breaks to remain in the community. Eventually, the hidden costs of incentive packages may come home to roost, forcing officials to choose between higher taxes or reduced public services.

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### TAKING POSITIVE ACTION

Instead of doing the wrong thing, some declining towns, paralyzed by a community-wide negative attitude, do nothing at all to strengthen their economies. For example, a town may be in denial about a plant closure: "They'll change their minds," residents say, or, "The econ-

omy is sure to turn around." Another may have realized a problem exists but is focusing all its energy on blaming those who it believes caused the problem: the government, the company, or environmentalists. Such negative thinking means that these towns will continue to decline until they realize that revitalization can begin only when inhabitants decide to take positive action.

Local economic development, then, is the process by which local people build organizations and partnerships that provide a positive and sustainable environment for profitable businesses in such areas as workforce skills and education, health care, housing, infrastructural capacity, and the environment. In effective local economic development, a lot of people get involved to decide how the community should change and how to make it happen. Business becomes a means to generate wealth and to make the local way of life more creative, inclusive, and sustainable. The goal is to build market-driven, public-private partnerships that create long-term jobs, income, and wealth. These important partnerships do not occur by accident; they take a lot of work and commitment.

In its broadest sense, according to the International Economic Development Council, economic development encompasses three major areas:<sup>iv</sup>

- ✓ Policies that governments undertake to meet broad economic objectives such as increased tax revenues, high employment, and sustainable growth. Such efforts include monetary and fiscal policies, regulation of financial institutions, trade, and tax policies.
- ✓ Policies and programs that governments, not-for-profit organizations, and for-profit organizations undertake to provide infrastructure and services such as highways, parks, affordable housing, crime prevention, and K-12 education. The primary purpose of these programs goes beyond economic development. Therefore, depending on its mission, the economic development organization (EDO) may or may not address these issues, as they have implications for economic development.
- ✓ Policies and programs explicitly directed at job creation and retention through specific efforts in business retention and expansion, business attraction and marketing, business finance, entrepreneurial development, real estate development, workforce development, and technology-led economic development.

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## ADAPTING, RESPONDING, AND PROSPERING IN RAPIDLY CHANGING TIMES

- **Local and regional governments** can establish a supportive environment through policies and practices that encourage the development of existing businesses and the establishment of new businesses.
- **Educational institutions** should adapt to meet the needs of employers and the workforce.
- The **business sector** provides employment and contributes to the social well-being of communities through employing responsible business practices, providing wages and salaries, and paying taxes.
- **Private citizens' groups** should be encouraging desirable types of businesses and patronize establishments beneficial to the community.
- **Communities** can foster an investment-friendly environment in which private investors can expect a reasonable return on their investment.

In developing countries, the concept of economic development usually refers to a broad set of efforts to reduce national poverty and raise national income levels. In this sense, policies and programs focus on a comprehensive approach to economic growth that includes capacity building for its citizens, public and private sector participation, and collaboration. These efforts may focus on improvements to political, legal, financial, transportation, communication, education, environmental, housing, or healthcare systems. Business or employment-specific aspects of local economic development in developing countries may focus on entrepreneurial development, foreign direct investment, and the development and maintenance of efficient production and distribution systems for goods and services.

A number of academic programs called “economic development” exist in a number of universities in the U.S., but they tend to deal with the national level of development rather than the local or regional approach of the American economic development profession. The primary focus of economic development professionals in this country tends to be on policies and programs focused on job creation and business investment.

## ADAPTING AND ADJUSTING STRATEGIES TO CHANGING REALITIES

An important part of economic development is the expectation that increased prosperity contributes to improving the quality of life for each community member (“a rising tide lifts all boats”). To achieve this, communities must understand their local comparative advantages and continually adapt and adjust their economic development strategies to changing realities. To that end, private and public local leadership is a critical factor in effective economic development.

While the goal of business is to increase profitability or shareholder value, the role of government is to provide

those long term investments that promote the wellbeing and prosperity of its businesses and citizenry. As Alexander Hamilton highlighted in his Manufacturing Report presented to the House of Representatives in 1791, the government holds the responsibility to build a foundation so that the private sector can flourish.

Therefore, each sector of a community plays a vital role in promoting economic development. This is ultimately a long-term process that involves numerous organizations and a variety of tools and strategies. Clearly, much of what happens in the global, knowledge-based economy appears beyond the control of individual communities and their development organizations. However, public officials and economic developers can help their communities adapt, respond, and prosper in these rapidly changing times as outlined below:

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## EVOLVING INTO A PROFESSIONAL INDUSTRY

Economic development has evolved into a professional industry of specialized practitioners increasingly working in public-private partnerships that are sanctioned and many times are at least partially funded by local, regional, and state tax dollars. These practitioners have two key roles: one is to provide leadership in policy-making, and the other is to administer policy, programs,

## ACTIVITIES TO FACILITATE SUSTAINABLE DEVELOPMENT

- Development of a skilled workforce
- Investment in the physical infrastructure
- Targeting the recruitment of new jobs that pay higher wages
- Improvement of the business environment
- Availability of marketable land and buildings
- Working toward a sustainable natural environment
- Fostering greater equity in economic opportunity
- Improvement of the quality of place
- Marketing and promotion of the community

and projects. These economic development organizations function as individual entities and in some cases as departments of local governments. Their role is to seek out new economic opportunities and retain their existing business wealth.

Intense competition exists between communities, states, and nations for new economic projects. The level of this competition is demonstrated in the growth of the use of incentives to attract and foster the growth of major employers. The measurements of success for this development activity are normally job creation, a rise in the standard of living, and an increased or retained tax base.

As stated earlier, the economic development professional and the development organization cannot by itself determine the economic fate of a community. Too many private sector decisions are at play. However, the economic development of a community can be positively influenced through the efforts of the various development organizations. These organizations can *facilitate* sustainable development through their involvement in such activities as:

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- Improvement of the business environment
- Availability of marketable land and buildings
- Working toward a sustainable natural environment
- Fostering greater equity in economic opportunity
- Improvement of the quality of place
- Marketing and promotion of the community

The terms “economic development” and “community development” are frequently used interchangeably. It is difficult to draw hard and fast lines that separate the two concepts. It might be said, however, that community development is the process by which a community focuses on improving the quality of place for its residents. Therefore, the focus of community development generally is the improvement of the living and working environment of its citizens, whereas the focus of economic development is on the improvement of the business investment environment. Clearly, the two areas are intertwined and the ultimate success of one effort is dependent on the success of the other effort.

## CONCLUSION

This article is clearly just a brief introduction to the profession and practice of economic development. However, it is an attempt to capsulize and crystallize an evolving and increasingly complex set of processes and desired outcomes. Hopefully, it can serve as a helpful starting point for a dialogue among local leaders, elected officials, development professionals, and others interested in the pursuit of a healthier and more prosperous community.



## ENDNOTES

- <sup>i</sup> Jonathan Q. Morgan, editor, *Economic Development Handbook, Third Edition 2009*, North Carolina Economic Developers Association, p. ix.
- <sup>ii</sup> Ibid, p. x.
- <sup>iii</sup> J.C. Dissart, “Regional Economic Diversity and Regional Economic Stability: Research Results and Agenda,” *International Regional Science Review*, 26(4), p. 424.
- <sup>iv</sup> International Economic Development Council, *Economic Development Reference Guide*, p.3.

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