Best Practices in Local and Regional Economic Development

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Successful economies are primarily influenced by local and regional, conditions and programs.

National and state (provincial) programs empower local and regional initiatives.

Focus here is on general strategies that are most effective at the regional and state or provincial levels.

How to measure success.
What is Economic Development?
Development is not....

- Rising population
- Rising employment
- Rising tax revenues
- Increasing property values

- But development may lead to each of these trends
Economic Development is....

A long term process of rising **productivity** and **income** for residents

- In contrast, the short term goal of economic policy is:
  - Job creation to remedy business cycle unemployment
  - Monetary policy to ensure price stability
"Creative destruction"
- Development progresses as high productivity activities replace lower productivity activities
- High value products replace low value products
- Good jobs replace poor jobs

Displacement is a necessary part of economic development!
At near full employment (labor and capital), new economic activity squeezes out or displaces existing economic activity (somewhere).

This leads to higher returns to labor and capital, increased profits, increased net public revenues.
Secondary effects are the multiplier effects of new investment and production.

All economic activities have secondary effects.

During periods of near full employment, both primary and secondary effects displace other economic activities.

Best practice is to calculate secondary effects but allow for displacement effects.
Economic Development Strategies

- Economic development is notoriously subject to fads
- See Joel Best. “Flavor of the Month: Why Smart People Fall for Fads” (2006)
Recent Waves of Economic Development Strategies

- 1960 – early 1980’s
  - Industrial recruitment
- Early 1980’s – late 1990’s
  - Retention and expansion
- Late 1990’s – present
  - Regional innovation strategies

Each new strategy was added to the earlier strategies
Industrial Recruitment

Focus
- Footloose firms
- Outside investment
- Foreign Direct Investment

Tools
- Industrial targeting
- Tax breaks & rebates
- Subsidized loans
- Loan guarantees
- Grants
- Industrial parks
- Infrastructure
Retention and Expansion

Focus
- Existing local businesses
- Internal investment

Tools
- Direct subsidies
- Technical support
- Public-private partnerships
- Infrastructure
- Tax Increment Financing
Regional Innovation Strategies

**Focus**
- Business clusters
- Entrepreneurs
- Research universities and centres

**Strategies**
- Cluster targeting
- Business Incubators
- Venture and angel capital
- Brokering business networks
- Entrepreneurship development
- Workforce development
- Public/private partnerships
- Quality of life
What do we know about these strategies?

- Research has shed some light on the efficacy of many of these strategies.
Businesses locate in places, not states or provinces

Targeting must be based on

1. Regional assets (capitals ➔ financial, built, human, social, natural, historical and cultural)
2. Preferences of residents
3. Benefits and costs of typical firms
Inward investment brings new ideas, needed capital, and connections to markets

New firms often become magnets for other firms (suppliers, marketers, competitors)

But footloose industries are bargained away as easily as they are recruited
Recruitment and incentives work some times
Very expensive and if local public services decline they may slow development
Financial incentives can put existing businesses at a competitive disadvantage
“Additionality” often low
Not all incentive tools are equal—benefit cost analyses are essential
Infrastructure Investments

- Infrastructure is essential to business growth
- Speculative investments are expensive and can displace other important public expenses
- Infrastructure that raises quality of life, as well as productivity is the safest bet.
In general, R&E strategies have been positive economic development tools. They must be used with care since development is generally a process of creative destruction. R&E programs focused on innovation can facilitate change and development.
If well done, these services increase productivity and overall competitiveness and are available to all businesses in the region.
Tax Increment Financing

- TIF is a way to finance infrastructure
- Can create fiscal stress for municipal governments
- Often abused strategy
- If well designed and focused on real needs TIFs can be very effective
Cluster Targeting

In contrast to industrial targeting, cluster targeting

- Is based on region’s assets
- Is more sustainable since firms reinforce each other
- Tend to generate higher wages and profits

Targeting process is the key

See

Stephan Goetz, Steven Deller, Tom Harris. “Targeting Regional Economic Development” 2009
If successful, it raises the productivity of workers
More likely to stay in the region than footloose businesses
Often fills important niche in regional economies, supporting other businesses and raising quality of life
Venture capital often limiting factor in new businesses

Important element in support of an entrepreneurship strategy

Often difficult to establish in declining or distressed economies

Public intervention through tax credits or guarantees can increase supply
Public decision-makers need to know:

- Consequences of their programs and decisions
  - On the employers and employees
  - On public revenues and expenditures
- Rate of return on alternative public expenditures
Relationship between public decision-makers and economic analysts

- Analysts need to understand
  - Decision-makers information needs
  - Decision-makers skill levels
- Public decision-makers need to understand
  - Indicators
  - Data needs
  - Model limitations
Conclusions

- Federal and provincial governments have an important role to play in encouraging and empowering healthy regional economies.
- Local and regional development agents must be provided with opportunities and incentives to partner with each other and with the private sector.
Conclusions

- Economic development involves the replacement of low productivity activities and jobs with higher productivity activities and jobs.
- This requires accurate indicators of productivity, displacement, benefits and costs.
- BCA and EIA are critical tools for designing effective economic development programs, and for preparing for the consequences of these programs.
Some Useful Readings

QUESTIONS