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George A. Erickcek
W.E. Upjohn Institute for Employment Research, erickcek@upjohn.org

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[Editor's Note: This article is part of a series on "Research Questions for the New Millennium." The series aims to identify research needed to inform employment policy in the near future.]

Economic development organizations are acting smarter today, promoting "smart parks" (wired business parks), business accelerators, and conducting industrial cluster analyses. Still, academic researchers generally believe that there is room for improvement, and they advocate even smarter economic development policies that can help alleviate poverty and promote regional productivity.

In particular, most researchers insist that smart economic development would avoid the blanket use of tax incentives and state grants to lure businesses across state lines. However, these programs remain the mainstay to most economic development efforts. Critics of the economic development subsidies offered by states argue that they may generate results that are worse than zero-sum, because limited public dollars are being used to promote non-market-based location decisions instead of providing public goods. Practitioners argue that tax and finance incentives are crucial as states battle for that next plant opening.

Researchers agree that economic growth is better than no growth and that it is associated with improving conditions for economically disadvantaged persons. Madden (2000), in her study of the nation's 198 largest MSAs, found that economic growth—regardless of whether it is in the core cities or in the surrounding suburbs—reduces metropolitan poverty; "[t]herefore, all policies designed to promote growth in jobs are antipoverty policies" (p. 162). Bartik (1991) found that economic growth has long-term positive effects on wage growth, career advancement, and unemployment. However, researchers are quick to point out that the effects of economic development programs depend upon how they are financed. If disadvantaged households are burdened by greater taxes or are negatively affected by cuts in public services, economic development could do more harm than good.

Advocates of smart economic development believe that economic development organizations should look beyond economic incentives and toward the following issues.

Focusing Economic Development Incentives to Areas of High Unemployment

Bartik suggested that since the net difference between wage offers and the reservation wages of area workers tends to be larger in economically depressed areas, successful economic development efforts will generate greater economic benefits in these areas. Second, development in these areas would eliminate the spatial barriers in transportation and employment information flows faced by job-seeking residents.

Because companies only consider private gains and not possible social gains of locating in brownfields or depressed areas, the social benefits generated by the development of locally depressed areas would probably not exist without public policy intervention. Unfortunately, Fisher and Peters (1998, p. 212) found that most states do not have any clear incentives for firms to invest in places of high unemployment. This is changing, however; for example, the state of Michigan has introduced tax-free (excluding sales taxes) Renaissance Zones for economically depressed urban and rural areas. Moreover, as of 1995, 34 states operated state enterprise zone programs that offer tax and economic incentives for firms that invest in more than 2,800 economically distressed areas.

Enhancing Areas' Economic Competitiveness

Porter (1990) and other regional researchers have suggested that communities should focus their economic development efforts on assisting their key industrial clusters in becoming global competitors. Porter argued that an area's economic success depends on the quality of its resources and suppliers, a customer base which demands quality products or services, and intraregional firm rivalry.

Cluster analysis can be viewed as being part of a larger scope or research that examines the spatial factors of product development and production. For many years, regional economists have explored the factors determining an area's place in its industries' product cycles. Some areas appear to be better incubators of products/services, while others are better production sites. Researchers and practitioners alike are interested in promoting regional policies that encourage product/service development that would enable the area to keep and maintain the more creative edge of its core industries.

Entrepreneurship development is a key element of this spatial approach to economic development. Entrepreneurs can both generate the spark that could result in the area's next core cluster or (more likely) promote the cluster's longevity by generating new products, new demand, or new suppliers. Likewise, business technology assistance programs, such as the manufacturing extension services, are efforts designed to improve an area's productivity. The role that universities and community colleges take in shaping the region's place in its industries' product cycles will surely get more attention in the coming years.

Conducting Solid Evaluations of Current Economic Development Efforts

State and local economic development efforts seldom spend the time or money necessary to conduct reasonable evaluation studies of their programs, because poor results could jeopardize the effort. Yet, without such studies it is difficult for these organizations not to mismanage resources. The barriers to conducting solid evaluation studies, however, are not limited to political intransigency alone. Classic evaluation studies require data that are seldom available. The inability to conduct a controlled experiment, for example, forces researchers to conduct historical studies using advanced econometric techniques to control for selection bias (a major problem in small business and manufacturing assistance programs), to rely on subjective survey opinion data, or to conduct cross-section regional studies where the "treated" community's performance is compared with that of similar communities. A recent development along this line is community benchmarking, in which a community measures its performance on key factors relative to similar communities (see Erickcek and Watts 2000).

Integrating Workforce/Human Development Efforts with Local Economic Development Efforts

Local workforce development and economic development efforts tend not to work together effectively, even though they are striving for the same goal of improving the employment and income opportunities of area residents. This is unfortunate because in a competitive, full-employment environment, firms may be able to grow only through increasing the number of area residents who are ready to work. Business-directed, community-based training programs are now found on all levels. For example, the various Centers of Employment Training (CETs) sites across the country are neighborhood-focused training programs that concentrate on teaching key skills needed by neighboring firms. On the city level, the discontinued JobNet in Portland, Oregon, required businesses using city economic incentive programs to give disadvantaged individuals a fair chance in obtaining employment. On the state level, several states subsidize employee training through their community colleges.

Innovative Workforce Development Programs

The Cleveland Center for Employment Training (CET) is a nonprofit organization currently offering five specialized open-entry and open-exit training programs for occupations in high demand by local business. Local governments provide 94 percent of the program's budget, and area firms play a key role in course design and instruction. Since 1967, the program has trained and placed 70,000 persons.

The Portland, Oregon JobNet linked economically disadvantaged job seekers to job openings in firms receiving economic development assistance from the Portland Development Commission (PDC). To obtain financial assistance by the PDC, firms were required to sign a "First Source" agreement, requiring them to consider disadvantaged job applicants selected by the JobNet Program. These candidates were screened and trained for entry-level positions by various training organizations that were associated with the JobNet effort. From 1989 to 1996, JobNet placed, on average, 700 disadvantaged persons into jobs. Unfortunately, the program was eliminated due to the lack of strong local neighborhood support as the state consolidated training programs into one-stop centers.

The Minneapolis Neighborhood Employment Network (NET) is an activity of the mayor's office that works with 11 neighborhood affiliates to link economically disadvantaged persons to private job openings. In short, the program depends on its job developers finding job openings, which are passed quickly to the neighborhood affiliates who recruit and screen potential job candidates.

The Milwaukee Career Cooperative is a nonprofit, temp-to-perm employment agency working in five inner-city neighborhoods in Milwaukee. A job developer works to find temporary job openings that can lead to permanent employment after no longer than a 90-day period. Candidates from the five neighborhoods, who are screened and provided job retention training, apply for the openings. The cooperative receives a service fee from the employer as would a private employment agency. The fee accounts for approximately 75 percent of the program's costs; the remainder is covered by foundation and government sources.

As both academic researchers and practitioners look for ways to act smarter, the following questions should be explored.

1. How can communities develop and maintain long-term job training programs that meet employers' needs and break employment barriers for economically disadvantaged individuals?

2. What is the economic role of smaller metropolitan areas in the changing global environment, as product cycles shorten and industrial networks become international?

3. How can programs be better evaluated or, more importantly, how can future programs be better designed so that evaluations become a means to "adjust the course" and not to a threat to "pull the plug"?

Clearly, the worlds of practitioners and researchers are different. Researchers worry about employment displacement, cost-benefit ratios, and selection bias in evaluation studies, whereas practitioners agonize about generating jobs. Still, both sides agree that an effective economic development program depends on communities' ability to link businesses, governments, and other stakeholders effectively, and that this effort will depend upon community leadership. This leads to the final major question to be addressed in the coming years: how do we foster the necessary leadership to create and support active business-education-government partnerships for effective local workforce/economic development programs?

George A. Erickcek is the senior regional analyst at the W.E. Upjohn Institute.

Suggested Reading

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