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What Should the Federal Government Be Doing About Urban Economic Development?

Abstract

The federal government should focus its policies towards economic development on areas in which the federal government has some unique advantages. Federal policy should:

(1) discourage financial subsidies to specific large firms by state and local governments;

(2) expand the federal role in economic development services in which national action has some special advantages, such as developing information on foreign markets, encouraging large national banks to be more involved in economic development, supporting the development of the "Information Superhighway", and encouraging new technology development;

(3) provide modest support for state and local efforts to increase business productivity through technology extension efforts and customized job training programs;

(4) encourage more and higher quality evaluation of state and local economic development programs;

(5) support experiments that link economic development efforts with hiring the disadvantaged;

(6) relax federal regulations, such as regulations on the cleanup of older industrial sites, that impede local economic development.

What Should the Federal Government Be Doing About Urban Economic Development?

1. *Introduction*

State and local government programs that subsidize or provide assistance to individual businesses—"economic development programs"—expanded enormously in the 1980s. Today, many policy analysts and policymakers are rethinking both the desirability and design of these programs. The key question for policymakers: to what extent do we need some sort of customized assistance to businesses, supported somehow by government, to increase business productivity or reduce poverty?

Because of the current national political obsession with deficits and avoiding taxes, the federal government will not be providing much financial support to state and local economic development efforts. But even minor federal initiatives can seem large to local organizations, and may significantly affect what local organizations do. I will argue in this paper that some creative, low-cost initiatives of the federal government could over time significantly increase the capacity of local development organizations to develop integrated strategies to solve their local economy's problems with productivity and poverty.

These local economic development efforts can over time significantly improve the performance of the national economy. Many of the key inputs into better business productivity—a more-skilled workforce, stronger inter-firm cooperation, better business information—must be delivered at the local level, in a strong metropolitan economy.

To provide some background, I first assess current developments in state and local economic development programs, before discussing how the federal government could play a constructive role.

2. *Description of State and Local Economic Development Programs*

After describing the different types of state and economic development programs, I consider the economic rationale for these programs and recent trends in these programs.

Description of Programs

Economic development can be defined as the process by which wealth is created in a national, state, or local economy. So defined, economic development is affected by anything government does. But "economic development programs" are usually more narrowly defined as government-sponsored programs that assist individual businesses. Some of these programs are run by government agencies. Other programs are run by private or quasi-private organizations but subsidized by government. Examples of such programs include: providing information to firms on sites, regulations, or available services; special business tax subsidies, or grants or loans to individual businesses; provision of infrastructure improvements for an individual business; and services of various types to help firms modernize, export, or upgrade their workforce.

What is most distinctive about these economic development programs is that they provide businesses with assistance that is customized to the needs of individual firms. Businesses are also of course assisted by more general government policies—the overall tax structure, the overall level and quality of public services, general government regulations—that affect an area's "business climate." But these general government policies assist large numbers of firms in similar ways rather than assisting each firm differently.

This paper will focus its attention on "customized business assistance" programs—economic development programs, narrowly defined. It is arguable that general government policies have more important effects on economic development. But customized business assistance programs are more politically controversial. Conservatives often view such programs as unwarranted government interference with the market, whereas liberals often view such programs as government giveaways to the rich.

Among customized business assistance programs, it is useful to distinguish between attraction policies that primarily are aimed at affecting the location decisions of new branch plants, and non-attraction policies that are aimed at affecting a wide variety of decisions (start-up, expansion or contraction, closing, modernization, exporting, etc.) of potential new start-up firms, and small, medium and other existing firms (see Table 1). The goals and methods of attraction policies are clear: get the new plant to locate in your area by giving them special services and subsidies. Attraction policies offer enormous political benefits. A huge amount of media attention is given to the location of a large new branch plant, and providing assistance to the new plant allows politicians to claim credit for the location decision. The goals of non-attraction policies are more diverse and harder to measure: modernization, improvement in business productivity and product quality, increases in exporting, better management, etc. Non-attraction policies' methods are harder to explain, involving provision of a variety of services. Non-attraction policies usually are not associated with large visible "successes" that can be dramatized in the media.

Possible Economic Rationales for Customized Programs

Customized business assistance programs are usually aimed at one or the other of two sometimes-conflicting goals: increasing business productivity or increasing business demand for labor. Although more jobs and more productive jobs are "good," government intervention to increase these good things is only justified, from the perspective of most economists, if there is some reason to think that private markets will not on their own provide enough jobs or sufficiently productive jobs.

A number of possible "market failures" might impede private markets from being efficient in providing enough jobs or sufficiently productive jobs, and thereby might provide some room for customized business programs to improve economic efficiency. Private financial markets may fail to fund worthwhile business projects because of government regulation, inadequate secondary markets or insurance markets, or too short time horizons. Research and job training may be underfunded by firms because one firm's research or training provides external benefits for other firms. Private markets may fail to provide sufficient information to small and medium sized businesses because of difficulties in assessing the quality of information. Land assembly problems may impede private business development. Finally, and perhaps most important, because of involuntary unemployment and underemployment, new jobs provide significant benefits to those who obtain them: the wage paid will greatly exceed the value of their time. In addition, getting an unemployed person into a job may have spillover benefits for other persons, by reducing crime, strengthening families, and providing role models to others.[1]

Involuntary unemployment and underemployment also provide equity grounds for government intervention in private markets. Even if the dollar benefits from intervention were less than the dollar costs, society might judge government intervention to be beneficial if it reduced unemployment or raised wages for disadvantaged persons or members of minority groups.

These market failures do not prove that customized government assistance to businesses will solve these problems or is needed to solve these problems. Government may be inefficient in helping to provide information, financing, research and training support, or in facilitating land redevelopment. The new or better jobs resulting from economic development programs may not go to disadvantaged persons. Furthermore, government intervention need not involve customized assistance to businesses. For most of these market failures, one could imagine some general regulatory reform or subsidy that might correct the problem. For example, the external benefits of research or training might be dealt with by tax subsidies for research or training. The benefits of reducing involuntary unemployment or underemployment might be dealt with by subsidies for hiring the disadvantaged. The benefits and costs of government-sponsored customized assistance to businesses must be compared with the option of doing nothing and the option of more general policies.

Recent Trends in State and Local Economic Development Programs

The big trend in economic development programs during the 1980s was the move by many state and local areas into "non-attraction programs," programs that tried to help small and medium sized businesses increase their productivity or employment. This trend occurred in part because state and local areas realized the limitations of an attraction strategy focused on just one type of business decision, the new branch plant location decision of large corporations. The move

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[1] I discuss market failure rationales for state and local economic development policies in much more detail in Bartik (1990).

to non-attraction policies was particularly important for many Northern and Midwestern states and large cities that were not favored by large corporations for new manufacturing branch plants. A 1991 survey by the National Council for Urban Economic Development (CUED) of economic development in 35 metropolitan areas found that marketing and promotional activities were a smaller proportion of economic development budgets in larger metropolitan areas and in the Northeast and Midwest, compared to smaller metropolitan areas in the South (CUED, 1991).

In the 1990s, tight government budgets, and a lack of demonstrated impact of many economic development programs, have forced state and local policymakers to reexamine what role should be played by economic development programs. At least three trends are currently apparent in state and local economic development policy: (1) **budget cutbacks**, (2) **renewed and larger attraction programs**, and (3) **reforms in non-attraction programs towards what are labelled "Third Wave" economic development programs**.[2]

(1) Cutbacks. Some state and local governments made significant cutbacks in economic development budgets in the early 1990s. According to the 1992 State Economic Development Expenditure Survey of the National Association of State Development Agencies (NASDA), economic development agency spending per state dropped from $32.5 million per state in fiscal year 1990 to $25.1 million per state in fiscal year 1992 (NASDA, 1992). State trade development office budgets declined seven percent in nominal terms from 1990 to 1992 (Clearinghouse on State International Policies, August 1993, p. 2). State spending on customized job training programs declined from $325 million in FY 91 to $268 million in FY 92, before increasing to $340 million in FY 93 (Duscha Advisories, 1993). According to the 1991 CUED survey of 35 metropolitan areas, "several of those interviewed indicated that their 1992 budgets would decrease from 1991, and some (like the city of New York) indicated dramatic decreases." (CUED, 1991, p. 19).

As the last comment on New York City indicates, economic development budget cutbacks have been particularly severe in a few geographic areas, such as Illinois, Michigan, and New York. In Illinois, state spending on the Department of Commerce and Community Affairs (DCCA) was cut from $415 million in 1990 to $243 million in 1992 (NASDA, 1990, 1992). In Michigan, Republican Governor Engler eliminated a large number of his Democratic predecessor Blanchard's economic development programs, including the Michigan Modernization Service, most state grants for customized industrial training, and state support for local economic development organizations.

(2) Revived Attraction Efforts. Other state and local governments have decided to refocus their economic development efforts on the old time economic development religion of "smokestack chasing" or attraction. Kentucky appears to have initiated the latest wave of subsidy wars in 1988 with a program providing six percent wage subsidies (2/3rds funded by the state,

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[2] I was influenced to choose this three-part grouping of recent trends in economic development by a recent paper by Eisinger (1993), which uses precisely this three part grouping of trends.

1/3rd funded by local governments) for new industries locating in high unemployment counties, financed through forgiving the normal payroll tax collections from the company, and administered as a discretionary program. Both Ohio and Oklahoma have recently initiated their own wage subsidy programs, and Kentucky has expanded its program.

In addition, a number of states have created huge special subsidy bids for specific new projects, particularly for auto branch plants and airline facilities. Press accounts have claimed subsidies of over $300 million by Alabama in 1993 for the new Mercedes plant, and Indiana supposedly promised $400 million to get United Airlines to locate 6000 jobs in the state. Many press accounts do not distinguish between immediately paid grants, tax abatements awarded over a twenty year period, and state loans or loan guarantees. It is clear that some state subsidies for specific projects are large. For example, Art Rolnick, economist at the Minneapolis Fed, has argued that Minnesota's 1991 bid for a Northwest Airlines facility providing 2000 jobs should be viewed as costing the state at least $75 million annually, based on the differential between the interest rate the state charged Northwest, and the prevailing private market interest rate on Northwest bonds. (*U.S. News and World Report*, Jan. 27, 1992, p. 58)

(3) The Third Wave. Some economic development activists are promoting an approach to running non-attraction programs that has been dubbed "The Third Wave." "The Third Wave" approach is meant to be contrasted with so-called "First Wave" economic development programs emphasizing attraction of new branch plants, and so-called "Second Wave" economic development programs emphasizing government provision of free services to new and small businesses. The Third Wave concept is to encourage economic development by providing a variety of services to new firms, and small and medium-sized existing firms, through private or quasi-private organizations, ideally operating in a competitive market for such services. Government would help develop these new markets for business services, and might provide some subsidy, but less than 100 percent of the cost of these services. The rationale for this approach is that private or quasi-private service provision will be more effective and cheaper than government provision of economic development services. A modest government economic development budget might leverage sufficient private resources to significantly affect the local economy.

The Third Wave approach clearly has some ideological affinity with other recent efforts by "neoliberals" to "reinvent" a more activist government. The Third Wave approach has been most aggressively promoted by the Corporation for Enterprise Development (CfED), an economic development think tank. David Osborne, the co-author of *Reinventing Government* (1992), the recent book which popularized state and local efforts to make government more market-oriented, previously wrote the book *Laboratories of Democracy*, which highlighted CfED's contribution to state and local economic development. Doug Ross, current Assistant Secretary of Labor for Training in the Clinton Administration, was previously President of CfED, and also has been active with the Democratic Leadership Council, an aggressively "moderate" faction of the Democratic party.

Third Wave advocates frequently cite European examples. European trade associations reportedly provide economic development services to member firms that are integrated, in that the trade associations will help with any problem impeding the firm's competitiveness. These trade association service programs charge some client fees, but also receive some government subsidy, and are provided on a much larger scale than is typical in the U.S. (Nothdurft, 1992).

Because the Third Wave approach is more of a direction (more efficient, semi-privatized government services) than an explicit program, it is difficult to say how fast Third Wave-style economic development approaches are spreading in the United States. In times of budget stringency, there has certainly been much more interest in charging fees for economic development services. A number of state and local areas are using quasi-private economic development organizations to deliver economic development services or even to handle overall economic development policy.

Another example of a Third Wave strategy is the promotion of "flexible industrial networks." These networks of local firms may share information on ways of improving productivity, do R&D or marketing projects together, put together a joint bid for some contract, or work with local community colleges to set up better training programs. Such networks usually bring together firms that have common problems and interests, but do not compete for the same customers. Among the many state and local areas promoting networks are Oregon and the Northern Economic Initiatives Corporation in Michigan's Upper Peninsula. Oregon is providing training to private network brokers who will help set up networks, as well as small start-up grants for networks. The Northern Economic Initiatives Corporation in Michigan's Upper Peninsula has helped form a Furniture Manufacturers Network. Through this network arrangement, these furniture makers have saved money by shipping their products together, shared the cost of an outside consultant coming in to advise the different firms on production methods, and provided ongoing advice to each other on improving competitiveness. CfED claims that as of 1991, 1500 small firms were involved in 50 industrial networks throughout the U.S. (Friedman, 1991, quoted in Shapira et al, 1992).

Some initiatives apply Third Wave principles to government business financing programs. Instead of direct government loans or loan guarantees, Michigan's Capital Access Program, begun in 1988, provides subsidies for bank small business lending that is of moderate but not extreme risk. Under the program, the bank and the small business borrower each pay in from 1.5 percent to 3.5 percent of the loan value into a loan loss reserve fund. These payments are matched by a state subsidy payment into the reserve fund. Each bank's reserve fund is available only to cover losses suffered by the bank under the program, and any losses above the reserve fund are the bank's responsibility. The bank will not make normal low-risk loans under the program because of the fees involved, yet will not make excessively risky loans because of the bank's exposure if its reserve fund is exhausted.

So far in the 1990s, which of these three economic development trends—cutbacks, revived attraction programs, or Third Wave reforms—is dominant? The data are too poor to tell for sure. My judgement is that none of the three trends is currently dominant. This judgement is also shared by other observers of state and local economic development (Eisinger, 1993, p. 18).

3. *Lessons Learned from Our Experience With State and Local Economic Development Programs*

What lessons have we learned from state and local economic development programs? What do these lessons imply for policy? In an ideal world we would have detailed knowledge from high quality evaluations of exactly which types of customized business assistance programs are most effective and why. We don't have such detailed knowledge. But we have learned some useful things about local economic development and economic development programs.

Lesson 1: Labor Demand Matters. An underlying premise of state and local economic development programs is that increasing the number and quality of jobs in a local economy will help the unemployed and disadvantaged. There are now many studies, which I have reviewed in Bartik (1991, 1993), that show that a tighter local labor market has significant benefits for the unemployed and the disadvantaged.

Lesson 2: Tax Subsidies Can Help, But May Be Relatively Expensive Per Job Created. There are relatively few direct studies of state and local tax subsidies for specific firms. But there are many studies of how the general level of state and local business taxes affects business activity in a local area, which I have reviewed in Bartik (1991, 1992). It is reasonable to assume that an economic development tax subsidy has approximately the same effects on a firm's location decisions as a general business tax reduction for that firm with the same dollar value. Under that assumption, we can use the general business tax studies to estimate the cost effectiveness of economic development tax subsidies. These general tax studies suggest that to create one job, tax subsidies equivalent in value to an annual cash payment of between $2,000 and $11,000 will be needed, with the uncertainty due to the wide range of results in the research literature. This calculation assumes that the tax subsidy does not result in any reduction in public services to business. Annual costs per job created of $11,000 are likely to seem excessive to a state or local area unless it suffers from high unemployment.

Lesson 3: Economic Development Services to Small and Medium-Sized Businesses Can Work. Some independent evaluations suggest that economic development services to small and medium sized businesses can increase productivity or business activity. Several studies suggest the potential effectiveness of services that help small and medium sized businesses with their technology and other business practices. A recent evaluation of Ohio's Edison Technology Center program indicates that over one-third of these centers' business clients said that assistance from the center had led to increases in sales, profits, market share, or employment (Mt. Auburn Associates et al, 1992). An evaluation of Pennsylvania's Industrial Resources Center program found that 22 percent of the program's business clients reported increased revenues resulting from a center's services, whereas 45 percent reported some cost reductions (KPMG Peat Marwick, 1993). An evaluation of Oregon's Small Business Development Center program found that 24 percent of the program's business clients reported that the program had a great impact on their profits (Public Policy Associates et al, 1992).

One study finds strong evidence of positive effects of a customized industrial training program. Holzer et al (1993) compared manufacturing firms that received grants for modernization-related training from the state of Michigan to firms that applied for such grants, but were turned down because they applied too late in the fiscal year. The grants significantly increased training expenditures in the assisted firms compared to the unassisted firms, so the grants were not substituting for private training efforts. Product scrappage rates dropped significantly more in the assisted firms than in the unassisted firms. The drop in product scrappage rates was large enough to imply that the dollar benefits from the training exceeded its costs.

Finally, preliminary results from the U.S. Labor Department's experiment with self-employment training for unemployment insurance recipients suggests that such training programs can affect business start-ups (Benus et al, 1993). For treatment group members, the program provided self-employment training and a lump-sum payment of remaining UI benefits if the trainee achieved defined goals indicating readiness to start a business. Treatment and control groups were randomly chosen from among the relatively small percentage (about five percent) of UI recipients interested in entrepreneurship. The preliminary results indicate that 52 percent of the treatment group started their own business, compared to 27 percent of the control group.

These evaluations do not demonstrate that these business service programs would pass a benefit-cost test. But these evaluations do indicate that such programs can achieve some effectiveness in reaching their goals. The evaluations suggest that it is worthwhile to continue experimenting with such services to business.

Lesson 4: Reasonable quality evaluations of economic development programs are feasible. Some surveys of business clients of economic development programs provide fairly convincing evidence. Response rates are reasonably high, the questions appear neutrally phrased and straightforward, and are asked by an independent group, and often respondents have the option of remaining anonymous. It is difficult to see why under these circumstances there would be a strong tendency for respondents to misrepresent their evaluation of the assistance they received. In-depth follow-up with focus groups or interviews often are consistent with the survey evidence (Public Policy Associates et al, 1992).[3]

Furthermore, as indicated by the studies by Holzer et al (1993) and Benus et al (1993), in some cases one can compare the performance of assisted firms with unassisted firms that are similar in background characteristics. Many economic development funds are awarded on a first-

[3] Because many of these evaluations were prepared by consulting firms under contract with economic development agencies, one can question the objectivity of how the data are interpreted. There is an incentive for such consulting firms to stress the good, and overlook the bad, to please their clients. At least for some studies, however, this does not seem to have happened. For example, the Mt. Auburn study of the Ohio Edison program was fairly clear in stating that two of the Ohio Edison Centers had not been effective in promoting economic development. The Public Policy Associates study of Oregon's small business programs pointed out a number of problems with many of the state's small business programs.

come first-serve basis to eligible firms, as was true of the training program studied by Holzer and his colleagues. One would expect to frequently find, as Holzer and his colleagues did, that assisted firms and unassisted applicant firms were quite similar in all observable characteristics prior to the assistance.

Lesson 5: It makes sense to reform economic development programs in the general direction of "Third Wave" programs—that is, towards more modest subsidies for quasi-private economic development service providers. More modest subsidies help deal with the problem of scale: how with even a reasonably sized economic development budget can one assist enough small and medium sized firms to make a difference to the economy? I estimate that state and local economic development programs probably cost no more than $15 billion annually, including tax expenditures.[4] This economic development spending is small relative to the size of the private economy, the private manufacturing economy or the government's education and training spending. Even if we doubled the amount of economic development spending, some leveraging of private resources is essential for these economic development programs to have a significant economic impact.

In addition, collecting some program revenue from fees helps keep the program focused on the needs of its business clients. Collecting fees also is more equitable than providing services for free to businesses with taxpayer's money. There are social benefits from helping businesses improve their productivity and increase their employment, but are they enough to justify completely free services?

Using quasi-private service providers makes an economic development program more attractive to potential business clients. As a technology extension agent in one state put it, "If I showed up with a business card saying "I'm from the state and I'm here to help you", I'd get tossed out on my ear." (New York Times, Feb. 16, 1993).

One danger in Third Wave reliance on quasi-private service providers is that these service providers may pursue their own goals, not the economic development goals that justify a public subsidy for these services. But under First Wave or Second Wave approaches, public agencies

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[4] State economic development agency spending is about $1.3 billion annually (NASDA, 1992). State technology spending is about $1 billion annually (Horowitz, 1993). There is some overlap between the NASDA spending and technology spending. Surveys of 35 large metropolitan areas estimate annual economic development spending of $400 million. (CUED, 1991). These 35 metropolitan areas comprise 45 percent of the U.S. population. If smaller areas have similar rates of per capita spending, total local spending on economic development would be around $1 billion annually. There is some overlap between the NASDA and CUED figures, as some of the state spending supports local spending. Data on tax expenditures for economic development is generally unavailable. In Michigan, a state with a large tax abatement program, the foregone revenue due to property tax abatements is over $150 million annually, about three times the spending of Michigan's economic development agency. Michigan is probably a high tax expenditure state. If we add up state spending from NASDA, technology spending, and local spending from CUED, we get about $3 billion in annual state and local spending on economic development. If we assume, based on Michigan, that annual tax expenditures are no greater than three times this amount, than the total cost of state and local economic development efforts does not exceed $12 billion annually.

may also end up pursuing their own "private" goals. For example, a 1990 critique of the " Build Illinois" program, a "Second Wave" program of government grants and loans to small business, charged that "a call from a legislator…can move a loan to the top of the pile." As a result, according to the report, "in Illinois, economic development is the newest form of pork." (Ylisela and Conn, 1990). As another example, according to Mitch Horowitz, formerly director of state and local programs for the Corporation for Enterprise Development, "when technology programs have attempted to work within university settings, they typically have been captured by the university basic research culture and fall far short of their economic development objectives." (Horowitz, 1993).

Lesson 6: A strong local influence over the management and design of economic development policies is desirable. The pace and scope of economic development is determined by the characteristics of the local area. By "local area" I mean the metropolitan area. Key business inputs such as labor and land are provided locally, within the metropolitan area. Each local economy differs in which business inputs most need improvement—for example, one metropolitan area might most need more skilled workers, another metropolitan area might most need more good industrial sites. Local economic development needs will also vary depending on the industries in which an area specializes. The quality of local institutions involved with economic development will also vary—in one metropolitan area, the community college may run the best training programs, whereas in another metropolitan area other training providers may be better.

Improving the quality of local inputs provided to business requires the development of personal relationships among different key staff people in different local institutions—for example, between a researcher at a local university and researchers at local industries, between business personnel managers and those responsible for training and education at local institutions, between local government health and environmental officials and plant managers, or between the head of the local economic development organization and the president of the community college. The development of these relationships helps improve the quality of services to business and the coordination of these services. Such personal relationships can not be planned out at the state or federal level.

Because an economic development strategy can only be implemented using local inputs, local institutions, and networks of local relationships, there should be strong local involvement in the creation of that strategy. People will be more enthusiastic about implementing a strategy that they helped create. Also, only local groups will be able to quickly modify that strategy as unique local problems develop.

In many states, local economic development officials believe that state government economic development efforts are insensitive to local needs, particularly the needs of large cities. In Tennessee, economic development officials in Nashville believed, at the time of my 1986 case study of Tennessee's economic development, that the state's near-total focus on attracting new manufacturing branch plants was not always relevant to Nashville's efforts to develop stronger service export industries (Bartik, 1988). In Michigan, many local economic development officials did not feel involved with the design and operation of the Blanchard Administration's Michigan Modernization Service, which often seemed to swoop down into local areas from Ann Arbor with the "answer" that every firm needed to adopt new technology tomorrow.

There is some evidence that locally provided economic development services are more effective that services provided from one central statewide office. For example, a 1992 evaluation of small business services in Oregon found that the 19 locally-run small business development centers were much more highly rated by business clients than Oregon's other small business service programs. Each of these other programs delivered services through a single state office (Public Policy Associates and Brandon Roberts and Associates, 1992).

The importance of local decision-making and service delivery does not mean that every local government should be running its own economic development program, with no coordination. It is metropolitan areas that are properly viewed as functioning local economies. Individual small jurisdictions within the metropolitan area are not functioning local economies. The quality of labor supply depends upon the entire metropolitan labor market, not just the residents of one small jurisdiction. The inter-firm relationships, and links between public and private institutions, that are so important to economic development are likely to occur throughout the metropolitan area, and are not limited to the boundaries of one jurisdiction. A given local government may feel it needs to have its own economic development program to assert its special interests. For example, a central city may feel it needs its own economic development program to make sure that economic development programs address the needs of economically disadvantaged city residents. These individual jurisdiction economic development programs should, however, be well-coordinated with other economic development programs within the metropolitan area.

Lesson 7: Although local economic development organizations do not usually follow grand industrial policies of "picking winners," the more innovative local economic development organizations programs are increasingly pursuing "pragmatic industrial policies" of focusing attention on key industry clusters. The more innovative local economic development programs spend some time working with the local industries in which the metropolitan area specializes. Economic development requires an understanding of the strengths and weaknesses of the metropolitan area economy from the perspective of these key industries. In some cases, working with these key local industries can lead to changes in policy to deal with weaknesses in the local economy. For example, conversations with a key local industry may lead to some change in local training and education programs. This focus on key local industries may also lead to the formation of industrial networks. These industrial networks can foster inter-firm collaboration—for example, different firms may provide each other with information on using new technology and training to improve productivity and quality control.

Local economic development organizations are also increasingly targeting their recruitment efforts on industries in which they feel their local area has a comparative advantage. With funds scarce for economic development advertising and recruiting trips, the idea of targeting is to focus attention on the firms that the local area might actually have some probability of attracting.

We do not have hard, objective data showing that focusing attention on key industries, either in working with existing industries or in recruitment, is the right local economic development strategy. The assumptions behind this strategy seem sensible. An economic development organization has an enormous scarcity of resources, and perhaps most importantly, a great scarcity of staff time. In dealing with existing firms, it makes sense to focus that limited staff time on groups of related firms whose problems might be dealt with by one type of policy or program, and whose success is important to the overall local economy. In industrial recruitment, it seems crazy to spend much money and time initiating contacts with firms that are highly unlikely to ever choose your metropolitan area for a business location.

These pragmatic industrial policies certainly do not resemble the "industrial policies" that have been denounced by some economists as the government mistakenly trying to pick the firms and industries that will be "winners," and subsidizing these winners. An economic development organization would almost always seek to help any firm seeking a new plant site in the area, even if the firm was not in a "targeted industry." Economic development programs that provide services to local firms rarely turn down firms that request services. The issue is not so much who to subsidize, but where to best use your precious staff time for initiatives.

These pragmatic local industrial policies are not much influenced by the details of economic theories of agglomeration economies, urbanization economies, regional industrial clusters, or strategic trade policy. Local economic developers are aware that there is some economic thinking that local economic clusters are in some way important. Some local economic developers are familiar with the writings of Michael Porter (1990) or Jane Jacobs (1969, 1984). Most local economic development organizations are, however, trying just to figure out pragmatically what changes can strengthen their particular local economic clusters in their own particular context. This lack of influence of the details of economic theories of clusters is not surprising, because there is not some grand consensus among economists on exactly what factors make a local industrial cluster successful. The important empirical research of Henderson (1988) and Glaeser et al (1992) on agglomeration economies does not as of yet have many specific policy implications for what local economic developers should do. Many economists would probably agree with the practical advice that the ingredients of a cluster's success are likely to be quite specific to the nature of the cluster and the metropolitan area.

Lesson 8: There are some promising experiments in using economic development subsidies to encourage employers to hire disadvantaged persons, but most economic development officials will not initiate such policies on their own. The customized business assistance provided by economic development programs is usually designed to encourage businesses to improve productivity or expand employment. But in a few cases, such business assistance has been tied to business hiring of disadvantaged persons. The Portland (Oregon) Economic Development Commission requires assisted firms to use disadvantaged persons referred through JobNet, a consortium of the area's public training programs, as a first source for interviews for new hires. (CUED, 1993, p. 96).[5] In the early 1980s, the Minnesota Employment and Economic Development (MEED) program spent up to $50 million annually providing $4/hour wage subsidies, administered by local job training providers, to employers who hired unemployed persons, particularly those on public assistance. MEED gave a priority to subsidizing small business employers who were part of Minnesota's export base. The "On-the-Job Training" (OJT) component of the Job Training Partnership Act (JTPA) program, which provides 50 percent wage subsidies to private employers who hire and train JTPA-eligible individuals, could be viewed as an "economic development" program in that the subsidies may alter business behavior.

Customized business assistance for hiring the disadvantaged may be more effective than general subsidies open to all employers who hire any disadvantaged person. Making all employers and all disadvantaged persons automatically eligible for subsidies can cause problems because of stigma effects. In one experiment, welfare recipients who were told to inform employers that if they were hired the employer would get tax or wage subsidies were significantly less likely to get a job than welfare recipients who did not advertise their disadvantaged status to employers (Burtless, 1985). The most plausible interpretation is that some employers believed that being a welfare recipient was a good signal that a person would be a less productive employee.

Customized business assistance programs can overcome the stigma problem by screening both disadvantaged clients and firms. Disadvantaged clients can be screened to increase the perceived job quality of the applicant pool. Programs can also reassure firms by developing a good reputation for being candid about the strengths and weaknesses of their disadvantaged clients. In addition, programs can screen firms, prior to sending out disadvantaged clients for an interview, to make sure that this particular firm is willing to hire disadvantaged clients. If the subsidy is high enough, firms in some cases may be willing to create additional job slots for disadvantaged persons. Given the stigma problem, it seem likely that the effectiveness of subsidy programs for hiring the disadvantaged will depend crucially on program design and the quality of program management.

There has been little evaluation of whether customized subsidy programs for hiring the disadvantaged are effective in changing business behavior. The recent interim report on the experimental evaluation of JTPA suggests that OJT is successful in increasing adult clients' earnings (Bloom et al, 1993). But this evaluation does not consider whether the program causes an overall change in business hiring and training procedures. In Minnesota's MEED program, 55 percent of assisted businesses claimed in surveys that they would not have expanded without the MEED wage subsidies (Rode, 1988). In the Youth Entitlement Demonstration of the late 1970s, under which disadvantaged youths in selected cities were guaranteed part-time and summer jobs if they stayed in school, private employer participation varied greatly with the wage subsidy

[5] In 1991, the program reported 512 hires through this program, of whom 57 percent were minorities and 83 percent were low or moderate income individuals. (CUED, 1993, p. 96).

offer. Eighteen percent of employers were willing to create a job slot for a disadvantaged youth when offered a 100 percent wage subsidy, 10 percent when offered a 75 percent wage subsidy, and five percent when offered a 50 percent wage subsidy. (Ball et al, 1981).

Programs linking economic development with training and hiring the disadvantaged are unusual. The mind-set of most economic developers is that their role is to advocate for improving the local business climate. Most businesses are not particularly interested in hiring the disadvantaged, and do not want to be pressured or encouraged to do so. Hence, most economic developers are unlikely to initiate or push such policies.

The negative reaction of economic developers to imposing hiring requirements on subsidized firms may be legitimate. Such hiring requirements may worsen the local business climate. There is a natural tension between trying to encourage business growth and development and trying to ensure that growth and development serves the social goal of helping the disadvantaged. Although there are some interesting local experiments, we do not know yet if we can create programs that are successful in simultaneously targeting both these goals. It might be argued that these goals should instead be dealt with by separate programs, economic development programs focused on helping business, and social welfare or training programs focused on the disadvantaged.

4. *The Federal Role in State and Local Economic Development Programs*

Before discussing alternative federal policies towards state and local economic development, I briefly review current federal policy in this area.

Current Federal Policy

In the Reagan and Bush Administrations, the federal government did not play a leadership role in economic development programs. The absence of federal leadership contributed to greater state and local activism in economic development.

The federal government has continued to provide some economic development funds. The Economic Development Administration (EDA) and HUD's Community Development Block Grant (CDBG) program have provided funds which state or local governments can use for various economic development purposes. The Small Business Administration (SBA) has provided funds to encourage the creation of Small Business Development Centers (SBDCs). Some technology development efforts have proceeded through DARPA (Defense Advanced Research Projects Agency), the Sematech consortium, and NSF's Engineering Research Centers. Also, some technology extension service efforts were initiated via a renamed and reoriented National Institute of Standards and Technology. But these economic development efforts mostly occurred due to isolated Congressional actions, and do not amount to a federal economic development strategy.

Even without federal leadership, in some cases specific federal categorical programs for economic development have influenced state and local economic development policies. Federal funding for economic development has been modest, compared either to the federal budget or to the number of firms that might use economic development assistance. But federal funds for some programs loom large relative to state and local spending for similar programs. For example, SBDC funding from SBA has encouraged state and local areas to pursue this particular model of economic development, which focuses on very basic and general business assistance for very small businesses or start-ups. NIST funding for Manufacturing Technology Centers (MTCs) has encouraged an expansion of the technology extension approach.

Currently, the Clinton Administration and Congress are moving towards modestly expanding the federal government's economic development efforts in at least four areas:

1. Significantly expanding the number of Manufacturing Technology Centers supported by NIST—the latest version of the legislation calls for expanding the number of centers from 7 to 100.

2. Encouraging additional large advanced technology research projects, funded through the Commerce Department's Advanced Technology Program, DARPA, and NIST.

3. Some modest capital funds for high technology companies via the Commerce Department, and perhaps some modest funds for "Community Development Banks" that might do some economic development lending.

4. The enterprise zone legislation that has already been enacted by Congress. Enterprise zones are discussed in Helen Ladd's paper for this conference, so I will not spend much time on this issue.

Except for enterprise zones, most of these Clinton Administration economic development initiatives have not passed the Congress in final form. But some Congressional action along these general lines seems likely. All four initiatives taken together involve only a few billion dollars of federal spending, which is modest compared to the federal budget, but large compared to state and local economic development programs. Hence, these new federal initiatives may have important effects on state and local economic development programs. Much depends on the details of how these new initiatives are administered.

The key federal policy issue is: given the relatively small amounts of federal money likely to be available for economic development, how can the federal government be most effective in promoting national goals? Are the proposed initiatives the best use of the limited federal funds for economic development? What principles should guide federal policymakers in administering these new economic development initiatives and older federal economic development programs? How can national goals be reconciled with the need for local creativity and flexibility?

Alternative Federal Policy Roles

I now turn to analyzing the merits of alternative, but not necessarily mutually exclusive, federal policy roles in economic development programs. Even if we believe that governments should provide customized assistance to businesses to increase productivity or jobs, it is not clear that the federal government need get involved. From the perspective of an economist, federal government intervention is strongly justified only if there is some strong national interest that will not be adequately addressed by state and local government efforts. Federal government intervention will be needed if the actions of one state or local government cause strong external benefits or costs for other states. Federal government intervention will be needed to encourage greater attention to the needs of the poor. State and local taxation of the upper or middle classes or business to help the poor will be limited in magnitude because both people and businesses can move from one local area to another. Federal intervention may be needed if the federal government has some comparative advantage over state and local governments in providing a service—for example, if there are significant economies of scale in providing the service.

Federal Policy Option 1: Attempt to discourage the "zero sum game" aspects of state and local competition for business. State and local subsidies to business for economic development can be argued to in part simply redistribute economic activity from one place to another, with no net national gain. But this competition for business leads to a generally higher level of subsidies to businesses, and lower business taxes, which has a regressive effect on the income distribution. Some sort of federal intervention might be justifiable on equity grounds.

One key problem with this policy option is that it seems politically and administratively difficult. There would be great political opposition to forbidding all state and local economic development subsidies. It would be administratively difficult for some federal agency or authority to examine all the many thousands of cases where individual businesses received some assistance that might be a subsidy, and determine in which cases there was a unfair subsidy, designed solely to lure a particular firm. Tax laws and spending programs always benefit some firms over others. It is difficult to imagine forbidding states from favoring some types of investments with their tax laws over others, or forbidding states from funding the building of access roads to new branch plants even though the transportation demand was there, or forbidding state-subsidized community colleges from seeking business clients for their training programs.

A federal policy might be feasible if it were limited to discouraging only some types of subsidies for large, multistate firms opening new branch plants. This makes the policy more politically and administratively feasible by limiting the number of cases that must be addressed, and limiting the penalty imposed. For example, federal policy could reduce state Community Development Block Grant allocations, or state industrial development bond authority, as a penalty for providing certain types of subsidies that only benefit a specific large firm. Subsidies that only benefit the firm itself would include firm-specific tax abatements and other tax subsidies, and subsidies or grants to finance the firm's capital equipment or site acquisition. Training or infrastructure development subsidies might be allowed because such subsidies arguably have benefits for society, not just the firm. This more modest federal intervention might limit some of the more egregious cases of state and local areas bidding for business.

It should be recognized that not all state and local economic development programs are "zero sum" games. State and local economic development programs that increase business productivity need not be zero sum games. If a state or local program that assists business results in productivity gains that exceed the program's costs, then this increases national economic efficiency. As a byproduct of that productivity increase, more business activity may occur in that particular local area, and less in other areas. But such geographic redistribution is efficient because we want resources to flow into more productive uses.

Furthermore, assistance to business in economically distressed areas need not be a zero sum game, even if this assistance only redistributes activity from affluent areas to the distressed areas, with no effect on business productivity. The efficiency benefits of more jobs will generally be greater in areas with higher levels of involuntary unemployment. High unemployment areas have a larger proportion of persons who are more desperate for a job, whereas in low unemployment areas someone who is desperate for a job is more likely to have already found one.[6] It is also possible that redistributing jobs from low unemployment to high unemployment areas will lessen national inflationary pressures, and allow a lower national unemployment rate without accelerating inflation (Baily and Tobin, 1977, 1978; Nichols, 1987).

Finally, economic development programs that increase the employment of disadvantaged persons are justifiable on social equity grounds, even if net national economic activity is unchanged. This is a weak argument because few economic development programs currently target the employment of disadvantaged persons.

Federal Policy Option 2: Attempt to explicitly target economic development on distressed areas. As argued above, additional jobs in distressed areas can be argued to be more valuable than additional jobs in prosperous areas, and this redistribution of jobs may lessen inflationary pressures. An explicit federal policy of redistributing economic activity to distressed areas might increase the overall efficiency of the national economy.

Past experience suggests that any deliberate federal policy of geographic redistribution is politically difficult. Congress wants to spread the benefits of federal programs to as many Congressional districts as possible. In addition, under present federal budgetary restrictions, it seems unlikely that the federal government could devote enough resources to an explicit geographic redistribution program to really significantly affect the location of business activity.

Geographic redistribution that occurs indirectly, through programs adopted for other purposes, may be more politically acceptable. For example, the Clinton Administration policy

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[6] In "economese," unemployed individuals in high unemployment areas are likely to have lower reservation wages. For some empirical evidence of this, see Jones (1989).

of expanding Manufacturing Technology Centers, which will help existing medium-sized manufacturing plants, will probably provide more help to older cities than would some alternative economic development policies, such as encouraging foreign investment in new branch plants. Alice Rivlin's recent book suggested devolving some federal functions to the states, possibly financed by a value added tax distributed on a per capita basis (Rivlin, 1992). Some mild geographic redistribution to economically distressed areas would occur through this new form of revenue sharing.

Federal Policy Option 3: Directly intervene in helping provide key economic development inputs in cases in which the federal government has a clear comparative advantage over state and local governments.

Many economic development inputs, such as training, and business information on technology, are best provided locally. Other inputs might be provided in a more efficient manner with some federal intervention.

For example, additional federal involvement in providing information on foreign markets and export opportunities seems sensible. Federal involvement captures some economies of scale, compared to each state doing its own research, and the federal government already has an extensive infrastructure of embassies, consulates, and state department offices devoted to understanding foreign countries. As recommended by a recent symposium of trade development professionals, the federal government might focus on collecting and analyzing such information, with the information actually delivered to individual firms through local organizations (Bremer, 1993).

A second area where federal intervention might be helpful is in economic development finance. Because banks are increasingly national entities, and much of banking regulation occurs at the federal level, initiatives to increase bank activity in helping small businesses or encouraging economic and community development would benefit from federal involvement. A large national bank might be more prepared to change its overall policies if faced with a federal initiative than if a few of its branches are urged to participate in some state or local business financing initiative. Modest federal support for initiatives such as the Capital Access Program might do more than numerous separate state initiatives, although this support could of course be provided by supporting state programs rather than setting up a new federal program. Initiatives such as encouraging a secondary market in small business loans would also be more efficiently carried out at the federal level rather than by separate, uncoordinated state programs.

Finally, federal support for infrastructure improvements is particularly needed in cases where the national consistency of such infrastructure is an important issue. For example, the much-discussed "Information Super-Highway" is clearly an area where some federal involvement is needed to make sure that technical standards are compatible across the country.

Federal Policy Option 4: Encourage state and local economic development programs that increase business productivity, such as technology extension, technology development, and job training programs. This seems to be the main thrust of the Clinton Administration proposals to increase the number of Manufacturing Technology Centers and increase federal support for applied research projects. For technology extension or customized job training programs, only a modest federal subsidy would seem justified on efficiency grounds. Most of the productivity gains from such efforts are captured by the assisted business and its workers, or at least by the local economy. Because workers and businesses move from state to state, some of the benefits of increased productivity in one area may spillover into other areas. But such spillovers are likely to be only a modest percentage of the overall benefits of increased productivity.

In addition to the limited spillovers, there are good practical reasons why the federal government should not seek to directly provide technology extension or customized job training services to firms, but should instead support local service providers. As mentioned before, job training and technology needs differ enormously from one local area to another. Furthermore, firms are more likely to trust private organizations or other firms than they are to trust the government for information, particularly the federal government. Local private organizations or industrial networks are likely to the most effective way of delivering these information services.

For technology development efforts, much more federal intervention might be justified. New ideas are extremely mobile across geographic areas. This mobility discourages state and local governments from investing much in the development of new technology. One could argue that the federal government will not make wise choices in deciding what areas of technology development offer the greatest potential, and that the process of technology development may be politicized by federal government intervention.

Federal Policy Option 5: Encourage more and higher quality evaluation of state and local economic development programs, and encourage dissemination of the findings of such evaluations. Federal encouragement of better evaluation is justified because of evaluation's national benefits. A well-done evaluation by one state or local area of an economic development program probably has great benefits for other areas—one could argue that most of the benefit of the evaluation accrue to other areas. Because state and local areas do not take into account these external benefits, state and local areas will underfund evaluations. In addition, state and local areas may underfund evaluations for political reasons. Negative evaluations may cause political problems for state and local governments, and voters may not believe a positive evaluation designed and financed by the governmental unit being evaluated. Voters may prefer some sort of outside influence over evaluation to guarantee higher quality information.

Two types of improved evaluation methods are needed. First, we need an evaluation methodology that is relatively cheap and can be used now, on an ongoing basis, for state and local economic development programs to improve their performance. Surveys of business clients of economic development programs seem the most feasible cheap evaluation approach. We need to develop standards for how questions in such surveys should be asked, and how such surveys should be administered, in order to ensure reasonably objective information. Survey standards would allow more accurate comparison of different business assistance programs, and of the same business assistance program in different state or local areas. A recent book by Hatry and other Urban Institute researchers begins to address some of the issues involved in designing better survey methodologies for economic development programs (Hatry et al, 1990).

Second, we need a long-term effort to develop rigorous evaluation methodologies that would accurately estimate the impact of economic development programs on a firm's performance. We could do such rigorous evaluations by comparing assisted and unassisted firms if we could control for "selection bias": the statistical bias that occurs because those assisted by the program are not usually randomly chosen among eligible firms. Such controls for selection bias require a much better understanding of what affects the dynamics of firm's performance—why firms change their sales, exports, productivity, employment, or other key performance indicators. Controlling for selection bias would also require a better understanding of what causes firms to participate in economic development programs. In addition to improving our statistical methodologies, we also need to sharpen our vision of what are the key benefits of economic development programs, and we need to create better measures of these benefits.

Better evaluation methodologies should be developed by a cooperative effort between federal agencies, and state and local economic development officials. Evaluation approaches developed cooperatively are more likely to be relevant to state and local needs and more likely to be accepted as standards. A good beginning might be a conference on economic development evaluation, co-sponsored by some of the professional organizations of state and local economic developers, and the relevant federal agencies whose funding is used for economic development purposes: HUD, EDA, SBA, NIST, DOL. A regular series of such conferences would help continue the process of improving evaluation methodology and would be a good way of disseminating results of evaluations.

Improving the evaluation of economic development programs is relatively cheap although not necessarily easy. But better quality evaluation of these programs would provide strong information and incentives for improving these programs' performance over time.

Federal Policy Option 6: Encourage careful experimentation with new economic development programs that push for the employment of the disadvantaged and link up with job training programs. Federal encouragement for greater targeting of economic development assistance towards employing the disadvantaged is justified on equity grounds <u>if</u> such approaches are effective. Empirical studies show that local labor demand has strong effects on the employment prospects of disadvantaged persons. These empirical findings suggest that targeted economic development policies, that aim at increasing labor demand for the disadvantaged, may be a useful complement to job training and education programs that increase the labor skills of the disadvantaged. But whether such targeted labor demand programs are effective is unknown. There are relatively few such programs and even fewer evaluations.

We also know little about the possible negative effects on an area's business climate of attempting to tie economic development subsidies to hiring the disadvantaged. Local economic developers often complain, for example, about the requirement that if Community Development Block Grant funds are used to assist private businesses, 51 percent of the jobs created or saved must be available to low and moderate income persons. Not much is known about the degree to which this requirement is effective in achieving its goals, or whether it operates as a disincentive to some business development.

Programs linking economic development assistance with job training for the disadvantaged will not happen naturally. Economic development officials think in terms of designing policies that match what business wants. Job training, social service, and community development advocates are understandably concerned about their programs being captured to serve narrow business interests.

A federally funded demonstration program in this policy area would be useful. Such a program might be funded cooperatively by some of the agencies concerned with economic development, job training, or poverty issues, such as HUD, EDA, DOL, HHS, and the Department of Education. Evaluations of such demonstrations should consider how the program affects the economic fortunes of the disadvantaged, the behavior of business participants, and the overall economic development of the metropolitan area.

Federal Policy Option 7: Relax federal regulations and program rules that unnecessarily impede state or local economic development efforts. In a time of little federal money, the least the federal government can do is not get in the way of creative local economic development strategies. As columnist Neal Peirce, the U.S. Conference of Mayors, and the National Civic League have suggested, we need to consider allowing local communities to flexibly combine and use the current federal program dollars flowing into cities to better meet community needs and the social goals of these programs (Peirce, *National Journal*, July 17, 1993). We need a well-defined and flexible waiver procedure for program rules for all types of federal assistance to state and local governments. For such a waiver procedure to allow different federal programs to be combined, we need an inter-agency group that would consider waiver requests. State and local governments are less likely to apply for such waivers if they have to make separate requests to each agency involved.

The National Performance Review, chaired by Vice President Gore, has recommended new federal policies that may deal with some of these concerns (Gore, 1993). The National Performance Review recommended a number of proposals that would create greater federal flexibility for state and local governments: creating an cabinet-level Enterprise Board that may issue waivers or consolidate programs; consolidating 55 categorical grants into six broad "flexible grants"; giving localities authority to consolidate small grants on their own; giving all federal agencies authority to give states and localities selective waivers from federal regulations or mandates. These proposals are promising. The issue now is whether Congress will authorize all these initiatives, and how effectively these proposals are implemented by federal agencies.

Another important area where more federal flexibility is needed is the regulation of environmental contamination of older industrial sites in central cities. The redevelopment of many of these sites is inhibited by concerns that even small amounts of contamination will require extremely expensive clean-ups. Environmental regulators and activists need to be convinced that relaxing environmental regulations on these inner-city sites would actually promote environmental preservation, by encouraging the reuse of old sites rather than the development of greenfield sites. (See Cooney et al for some case studies of the problems posed by such sites, and possible solutions.)

5. *Conclusion*

Given the limited federal resources available, it is hard to justify any massive federal investment in economic development efforts. Results from some state and local economic development programs are promising. Some of these programs appear to help improve business productivity. Other programs show some promise in helping encourage business to be more willing to hire disadvantaged persons. But the evidence, theoretical or empirical, in favor of economic development programs is not so strong as to justify huge amounts of new federal spending. Such a federal spending effort might be quite wasteful if these economic development services were not delivered effectively. Our information about desirable economic development program design is only slowly improving. The concern about wasteful federal spending is particularly strong in the economic development policy area because the most effective economic development programs appear to have strong local control, which might disappear with large amounts of federal spending.

Federal initiatives in economic development should be undertaken in areas in which the federal government has a comparative advantage, such as export market research, financial markets, and the "Information Superhighway." But the most important federal role in economic development should be to provide modest support for improving state and local economic development efforts. This appears to be the general direction of the Clinton Administration's economic development policies.

This modest federal support should encourage state and local programs that seek to improve business productivity. If politically feasible, some attempt should be made to impose some federal funding penalties on some state and local subsidies to branch plants of large corporations. The modest federal support for productivity-oriented state and local economic development programs should be coupled with extensive efforts to better evaluate economic development programs and find out what types of programs work best. In addition, there should be federal support for demonstration programs that would explore new links between economic development and job training help for the disadvantaged. Over time, continued evaluation, with federal support for dissemination of findings, would significantly improve the professional caliber and capacity of local economic development efforts.

The federal government should recognize that effective economic development strategies must be primarily locally designed and implemented. Local organizations are in the best position to flexibly respond to the diverse and changing economic needs of a local economy, and coordinate the various resources needed for economic development. It is locally designed organizations who must encourage the personal relationships—among persons in different firms and local institutions—that help make economic development strategies work. The federal government can provide information and resources to support these local strategies, but the federal government should not be directly running or implementing these strategies. The federal government should waive existing federal program rules and regulations to support locally-designed strategies. Such waivers should be continued or terminated based on whether local areas succeed or fail in reaching agreed upon goals.

If local economic development efforts are able to improve and fulfill their promise, local economic development organizations may be able to significantly increase the productivity and competitiveness of a metropolitan area. This would be done not by planning the whole local economy, or having a government office for every imaginable service to businesses, but by helping coordinate public and private resources to deal with key areas where private markets on their own fail, resulting in gaps in important services. The productivity and standard of living of the U.S. as a whole ultimately depends in part on whether we can use creative policies to strengthen metropolitan economies.

Table 1
A TYPOLOGY OF COMMON
STATE AND LOCAL ECONOMIC DEVELOPMENT PROGRAMS

Attraction-Oriented Economic Development Policies
(Primarily Targeted at Branch Plant Recruitment)

Marketing Area As Branch Plant Location
- Industrial development advertising
- Marketing trips to corporate headquarters
- Provision of site information to prospects

Financial Incentives
- Industrial revenue bonds
- Property tax abatements
- Other tax relief
- Provision of land at below-market prices
- Direct state loans
- Wage subsidies

Nonfinancial Incentives to Branch Plants
- Customized industrial training
- Expedited provision of site-specific infrastructure
- Help with regulatory problems

Non-Attraction Oriented Economic Development Policies
(Primarily Targeted at Small or Existing Businesses)

Capital Market Programs
- Government-financed loan or equity programs
- Government support for mostly privately financed loan or equity programs

Information/Education for Small Business
- Small business ombudsman/information office
- Community college classes in starting a business
- Small business development centers
- Entrepreneurial training programs
- Small business incubators

Technology and Research
- University centers of excellence in business-related research
- Research-oriented industrial parks
- Applied research grants to business
- Industrial extension services/technology transfer programs

Export Assistance and Other Marketing Assistance
- Information/training in how to export
- Trade missions
- Export financing
- Government procurement help
- Programs to match in-state suppliers with in-state businesses
- Extension advice on marketing plans

Workforce Development
- Training grants, sometimes tied to modernization
- Customized training programs delivered via community colleges
- On-the-job training wage subsidies

Note: This table is adapted from Table 1.1 in Bartik (1991).

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