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The Fundamentals of Regional Economic Development

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Foundations

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Development



Commercial and Industrial Real Estate

Community Development

Economic Development

Workforce Development

Housing Development

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Economic development is ...

- Governors and public—Job creation
- Mayors—Improved tax base
- Economists—Increases in per capita income
- City advocates—Community development
- And ... all are wrong

Desirable outcomes are frequently an indirect result of market activities

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The four Ps that create value

People
Products
Productivity
Placemaking

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Remember

1. Economies are portfolios of goods and services and the companies that make them
2. Five short-run activities that dominate economic development practice. Business:
 - Creation,
 - Expansion,
 - Retention,
 - Attraction, and
 - Protection.
3. All involve solving problems

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Team Skills Required

Problem solving,

Broad & flexible business, political & social networks ~ access to specific industry knowledge,

Analytical, financial, & data management.


Ability to share credit broadly

Economic developers act as the voice of their customers [businesses]—the demand-side of the markets for a region's economic development assets

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The contradiction of economic development practice



"I can assure you, madam, that our commitment to transparency will never inhibit our willingness to kick ass."

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The contradiction of economic development practice

The greatest professional challenge:
Maintaining client confidentiality while being transparent and accountable to the public

The second largest challenge:
Balancing the norms of private business conduct and expenses and those of the public sector

Forget the legal test:
Think about how will it look on the front page of a newspaper

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You are an intermediary

Economic developers are the voice of their customers [businesses]

Economic developers interpret and sell their communities to the businesses

Businesses are the demand-side of the markets for a region's economic development assets

Long-term benefits come from the supply side of a region's asset markets

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Three key to long term legitimacy and success

Widely shared vision,

Transparent practices,

Client confidentiality

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Ten Rules

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1. Don't be a victim

Be realistic without being pessimistic

Change policies and attitudes that can be changed

Respond to opportunity within a strategic framework

Green shoots require bricks and mortar

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"There, there it is again—the invisible hand of the marketplace giving us the finger."

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2. Economic development: New products


Employment is derived from product demand

End users do not purchase technologies, they purchase products and services

A regional economy is a portfolio of products and the technologies they embody—there is no silver bullet

Technology without a product is science

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"We have lots of information technology. We just don't have any information."

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2. Economic development: New products

The Product Cycle is real and affects strategy and implementation

Competitive advantage changes over time as the region's product portfolio ages



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"We design them here, but the labor is cheaper in Hell."

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2. Economic development: New products

Immediate outcome: New products and services

Long term outcome: Changes growth rate of region by changing the product portfolio

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3. Economic Development: Productivity and higher incomes

The measure of economic development success is change in per capita income.

Increases in earnings come from increases in productivity

Understand what productivity means:
Value added per hour worked

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**3. Economic Development:
Productivity and higher incomes**

Increases in per capita income require increases in productivity—higher valued products

The largest contributor to value added comes from **management** through innovation, brand, marketing, and cost control

Preserving margin is hard; the economy hates margin

- Consumers benefit when prices are reduced
- Usually accompanied with a decline in profit margins

Search for competitive advantage is a search to protect profit margins and preserve economic rents

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**4. Economic development:
Changes the income statement**

Do you represent the world's best place to operate the business?

- Does the location maximize **gross revenue**
The top line of the income statement
- Does the location minimize **expense items**
The middle lines of the income statement
- Does the location provide access to scarce **talent**
Specialized labor pools that are globally thin and locally thick

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**4. Economic development:
Changes the income statement**

If the location does not contribute value

The location is either:

- A historical accident benefiting from either inertia or sunk cost, or
- The CEO's housing investment

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**5. Economic development:
Transforms the company**

It is the rare business investment that is large enough and different enough to transform a regional economy on its own

The larger the region the more this is true

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**5. Economic development:
Transforms the company**

Answer two other questions instead:

1. Does this investment transform the company?
2. Is the investment **sticky**? Does this investment change the value of local assets:
 - o Make it difficult for the activity to leave?
 - o Transform existing operations?
 - o Transform the income statement?
 - o Change the types of companies that expand?
 - o Trigger high value firm births?

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**6. Economic development:
Generative; Not redistributive**

Asset-based; not need-based

Economic development is not community development

Community development is frequently a necessary prerequisite for economic development to take place; but is not community development

Short term economic development policy uses regional assets—land, people, and talents

Long term economic development policy invests in, and increases the value of, regional assets

Changes the quality and cost of land, people and talents

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6. Economic development: Generative; Not redistributive

- Government and economic developers do not create private sector jobs. **Build economies from areas of strength**, while intentionally addressing areas of weakness by practicing the habits of growth
- The politics of managing decline results in redistribution, not regeneration
- There is no soft landing in the American economy

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7. Economic Development: Practiced regionally in a competitive world

- All regions have effective competitors
- All municipalities have effective competitors, both within and outside of the region
- Markets will beat politics into submission over time; regions will either work effectively or the economy (investment) will vote with its feet

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8. Avoid fads and magical silver bullet thinking; Celebrate differences and differentiators

It is important to be authentic and distinctive, not imitative because it is the foundation for a traded sector

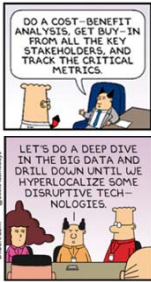
Avoid the public sector version of not-invented-here syndrome

If you follow fads thoughtlessly the buzz words will be there, but content will be missing

Avoid **rubeaphobia**
Fear that others think you are a rube for what you do or who you are.

Leads to downplaying real strengths and emphasizing imagined strengths.

Result: If follow the fad you are a larger rube than originally imagined



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8. Avoid fads and magical silver bullet thinking; Celebrate differences and differentiators

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9. Economic development: Two Conversion Experiences

Convert economic development time into political time

Convert economic geography into political geography

Lesson:
Convert economic development time into political time is critical for success

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9. Economic development: Two Conversion Experiences

Built on a widely shared transformative **vision**

Responds to near term political-economic **crisis** (the catalyst)

Flexible so that respond to opportunity

Answer the question:
Who maintains the long-term economic development investment agenda?

Lesson:
Short term politics is often the enemy of long term development strategy. The agenda has to be held in civic space, not political space

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9. Economic development: Two Conversion Experiences

What does effective leadership do?

- **Represents** the regional economy
- **Overcomes** geographic mismatch
- **Builds** practical, functional regionalism
- **Maintains** the civic investment agenda

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9. Economic development: Two Conversion Experiences

Three building blocks of successful economic development practice

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graph TD
    A[Development Theory] --> D[Economic Base Resources History/Culture]
    B[Development Practice] --> D
    C[Local Leadership & Context] --> D
    D --> E[Economic Outcomes]
  
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10. Economic development: Transactions

Vision and planning cannot get in the way of transactions


You need visible successes

There must be some bricks and mortar transactions

Reduce transactions costs

- Administration uncertainty
- Time lags
- Assembly costs

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Summary:
Economic development is art and science

- Do the hard stuff
- Fix the basics
- Change the value proposition

One person's pork barrel project is another person's wise investment in the local infrastructure.
Thomas Foley, Speaker of the US House of Representatives, 1989

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Summary:
Economic development is art and science

- Successful economies are constructed from strength and achievement
- Innovation and product development are the keys to long term prosperity. Invest do not spend
- Education is at the foundation of economic success
- Skepticism is good. Do not assume or assert competitive strengths
- Think of technology and product development as a portfolio

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Summary:
Economic development is art and science

- The **art** of economic development is connecting the dots that no one else sees
- The **science** of economic development is getting the deal done
- The connection between art and science is **momentum**
- Momentum mitigates risk and builds trust and optimism

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10 Rules of Economic Development

1. Not about victims	6. Generative; not redistributive
2. Product based	7. Practiced regionally
3. Rewards productivity	8. Celebrates differences
4. Changes a firm's income statement	9. Provides conversion experiences
5. Transforms the company	10. Requires transactions

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Thank you

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