2 THE INFLUENCE OF NATIONAL AND STATE POLICIES ON LOCAL ECONOMIC DEVELOPMENT

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LEARNING OBJECTIVES

- Describe three approaches to a national economic policy.
- Explain the impact of U.S. monetary and tax policies since the 1970s.
- Explain how U.S. local and national trade policies can defend against global competition
- Explain the concept of Workfare as it applies to the US welfare system.
- Summarize the impact of the 2010 Affordable Care Act (ACA) including disparities in health coverage across the U.S. population.
- Describe recent U.S. employment policies to train and connect American workers to jobs.
- Identify ways in which the federal government can stimulate local economic development.
- Explain how federal and local interests can collaborate for more effective economic policy implementation.
- Describe the five waves of economic development practice at the state and local levels.

The use of national industrial and social policies to stimulate and sustain the economy has a long history in the United States. The Louisiana Purchase in 1803, the later development of the railroads, the creation of the land grant college system after the Civil War, and the Depression-era New Deal were all national policies. They were pursued with vigor, and they used whatever national resources were necessary to obtain the desired economic results. Many of these programs, like the New Deal, were controversial when they were introduced. Nevertheless, stimulating the national economy by using federal government tax, financial, regulatory, and monetary policy is "as American as apple pie."

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Although many American economists do not like government intervention to affect the course of national or local economies, the United States has a crazy quilt of de facto or ad hoc industrial policies. The substance of these national policies ranges from farm supports to tax advantages for certain investments. States and cities in the United States have added their own taxes, land subsidies, and similar incentives to national efforts. The net effect is bewildering and sometimes counterproductive. Nevertheless, this collection of perspectives has characterized much of economic policy—or nonpolicy. However, lessons appear to have been taken from the nation's COVID-19 experience that has made the need for more explicit industrial policy, as we will discuss in this chapter.

THREE APPROACHES TO NATIONAL ECONOMIC POLICY

Since 1990, three general approaches have dominated the economic development debate. The first approach invokes past traditions regarding economic planning and advocates nationwide reindustrialization. It seeks to rebuild the nation's industrial stock through targeted tax incentives and national financing of infrastructure development. This approach has largely supported deregulation of labor to limit the power of unions to shape industrial actions, especially regarding international trade and firm outsourcing to overseas lower-wage areas. However, the Obama and Biden administrations have not supported labor deregulation and are instead seeking to strengthen labor's voice and position in the economy.

The industrial policy approach seeks to refocus economic development programs on rebuilding the nation's economy in the sectors where the nation must remain internationally competitive (e.g., see Cohen and Zysman 1987). As part of this approach, the transformation from old to new industrial and commercial activities should be accelerated through federal intervention that would identify "sunrise" industries—those producing new jobs that compete in a global market—as soon as possible and encourage them with appropriate investments and tax incentives (e.g., see Reich 1991). This approach has taken on new life as part of the Obama administration's post–Great Recession efforts to strengthen the national economy and its global competitiveness. The administration established the Advanced Manufacturing Partnership of industry, government, and universities to invent and deploy new manufacturing technology, processes, and products. It also set a goal of doubling U.S. exports overall and created the Renewable Energy and Energy Efficiency Export Initiative for increasing U.S. capacity in clean energy manufacturing, exports of renewable energy and energy-efficient manufactured goods and services, and reducing waste. The Biden administration has broadened and extended these efforts with the Bipartisan Infrastructure Law, called "a once in a generation investment in American's infrastructure and competitiveness" (The White House 2023b).

The second approach takes a dim view of incentives and dedicated taxes. It favors less rather than more government involvement in economic development and industry.

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Those advocating less government claim that the more interventionist groups have essentially made the nation a victim of regulations, special support systems, and inconsistent, often contradictory industrial and commercial policies that restrict trade and make the nation less competitive. Instead, they support a move to a fundamentally free market. In the American market economy, the best can and will survive, and the nation will be better served. It's important to understand, however, that if all regulations, support systems, and restrictive industrial and commercial policies were removed, firms could operate without consideration for the health and welfare of workers, their communities, or the environment.

The Trump administration focused on deregulating the economy, but much of its efforts were struck down in court. The Institute for Policy Integrity examined the administration's deregulatory actions and found out of 258 actions, it was successful in only 58, or 22% of the time (Wallach and Kennedy 2022)

Some free market economists would like to see the labor market further deregulated and the minimum wage either abolished or floated like the currency to absorb unemployed groups in the nation. These economists claim that if wages found their natural level, many more jobs would be available for those genuinely willing and able to work. The George W. Bush administration favored this policy approach in sharp contrast to the Clinton policies, which were more interventionist.

Additionally, the George W. Bush administration favored major tax cuts as a means to stimulate the economy. Many advocates have suggested these cuts stimulated spending and investment. Dissenters countered that tax cuts have distorted the gap between the rich and poor and placed a greater burden on the middle class to pay larger shares of the tax burden. Meanwhile, the nation's deficit soared, creating a new burden for future generations. In fact, the third-richest person in the world, the American billionaire Warren Buffett, publicly stated his concerns about the inequity of the U.S. tax system in an interview with broadcaster Tom Brokaw:

> The degree to which . . . the taxation system has tilted toward the rich and away from the middle class in the last ten years is . . . dramatic . . . and should be addressed. (Crippen 2007)

Buffett used his own firm as an example, noting that although he had no tax planning and paid what the U.S. Congress specified, the total taxes he paid were only 17.7% of his income, whereas the average for fifteen of his office staff was 32.9%. Buffet noted that even his office receptionist paid a higher rate of tax than he did (Crippen 2007).

Concern over the decline of the middle class has become a major focus of national dialogue. Growing inequality between the top 1% and the other 99% of income distribution has spawned national protests, in particular the Occupy Wall Street movement of 2011–2015. The Obama administration's efforts to address the beleaguered middle- and lower-income classes were first confounded by the need to recover from the global financial crisis and second by a gridlocked Congress that was incapable of working with the executive branch.

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The U.S. Bureau of Labor Statistics (Piacentini et al. 2022) surveyed economic literature focused on COVID-19's impact on inequality and concluded:

> established trends of growing inequality may continue roughly as before, involving new technologies, international trade, and the growth of "superstar" firms. Employment, earnings, and schooling were affected differently across demographic groups and occupations. The pandemic disrupted lower-paid, service sector employment most, disadvantaging women and lower income groups at least temporarily, and this may have scarring effects. Government policies implemented in response to the pandemic offset much of the effect on income. Higher-paid workers tend to gain more from continuing opportunities to telework. Less-advantaged students suffered greater educational setbacks from school closures. School and day care closures disrupted the work of many parents, particularly mothers. We conclude that the pandemic is likely to widen income inequality over the long run, because the lasting changes in work patterns, consumer demand, and production will benefit higher income groups and erode opportunities for some less advantaged groups. Telework has increased permanently. High-contact jobs and services may continue to face reduced demand and increased automation. School disruptions have been worse for lower-income students and are likely to have lingering negative effects, which may widen future inequality within more recent birth cohorts.

A third group of planners and economists has suggested that both free market and regulated industrial policy perspectives aiming at firms alone are misconceived. This is because they are based on the long-held but increasingly false premise that what is good for business is good for communities and workers. As Sloan Foundation president Ralph Gomory (2007) observed, the origins of this premise come from Senate testimony by the chair of General Motors in 1953 that what was good for General Motors was good for the country and vice versa. Although the premise explains much about why national policies have engendered the growing power of multinational corporations, it has become increasingly false with the advent and growth of globalization. Firms like General Motors found that what was good for them was not to be "good" to a community or even a nation of origin but rather to move their facilities to where production costs were perceived to be lower.

This job-exporting trend of U.S. businesses showed some signs of reversing prior to the pandemic, and then the reversal trend strengthened after the pandemic

1. as a patriotic response to the Great Recession's lingering impacts and concerns over the eroding standing of the United States in the global economy;
2. because labor and material costs have been rising substantially in international competitor economies (e.g., China), and

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3. because in advanced manufacturing as well as other key U.S. industry sectors, labor compensation has been stagnant whereas productivity levels have significantly increased.

The disruption to international supply chains during the pandemic and to deteriorating trade partnerships, particularly between the United States and China, has created demand for more production in the United States and the need for more manufacturing workers.

One of the enduring postwar trends of U.S. capitalism has been increasing industry concentration (see Brock 2015). Consequently, the firms in these concentrated or oligopolistically organized industry sectors have become so large that if they were to fail, there would be severe impacts on the overall economy. The global recession brought about by failures in the large firms of the U.S. financial sector that, in turn, threatened the auto industry and beyond, led to unprecedented moves on the part of the government to stabilize or bail out firms considered "too big to fail." This has led to renewed debate over what is the proper role for government intervention in the private sector. This debate most recently focused on whether U.S. advanced technology firms have de facto monopoly power, particularly for those in social media such as X, formerly known as Twitter, Facebook, and online retailers such as Amazon. With regard to the latter, the Federal Trade Commission (FTC) and seventeen state attorneys general sued Amazon in September 2023, "alleging that the online retail and technology company is a monopolist that uses a set of interlocking anticompetitive and unfair strategies to illegally maintain its monopoly power. The FTC and its state partners said Amazon's actions stop rivals and sellers from lowering prices, degrade quality for shoppers, overcharge sellers, stifle innovation, and prevent rivals from fairly competing against Amazon" (Federal Trade Commission 2023).

The very large firms that are the focus of concern for their monopoly powers have been frequent recipients of state and local tax and other incentives. Indeed, when Amazon was scouting a location for its second headquarters, it conducted a national competition that 238 local economies participated in.

Going forward, although there may be circumstances under which assisting firm expansion is warranted, our fundamental view is that national economic and industrial policy must have a local dimension. Thus, we need national policies that (1) increase community control over corporate investment policies, (2) allow communities a greater role in determining their economic stability and quality of life, and (3) give workers increased control and certainty over their livelihoods.

Because of the increasing impacts of globalization, the means to reach these ends must come from the national, state, and local levels. They include national policies that restrict tax write-offs for nonproductive investments; provide government assistance for local economic development planning, including loans to achieve both ownership

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and development of industrial space at the community level; and provide worker-retraining credits and/or educational incentives as well as more portable retirement benefits. In essence, each worker could have an employer-supported transportable retirement account outside of social security, to which any employer could contribute and to which the worker could also make contributions. Effective national support for local development should target resources and efforts to create a more level playing field across state and local jurisdictions so that all participants in the economy have an opportunity to realize their full potential.

States and localities are severely challenged by reductions in revenue and government personnel due to the prolonged effects of the Great Recession. At this time, reassertion of "a real role for the federal government at the community level, ending decades of retreat and delegation of social and economic problems to the states and cities" (O'Connor 1999) may be welcomed. States and localities need help in maintaining and strengthening all levels of education to maximize their economic development potential. They need help in correcting the long-deferred maintenance of infrastructure (mass transit, highways, railways and bridges, power grids, water and sewer systems) that is critical for economic development.

The Organization for Economic Cooperation and Development (1986) has long advocated that national economic policy must incorporate regional and local economic development to both moderate the impact of rapid economic change on firms, localities, and individuals and revitalize local economies to facilitate their adjustment to the transformation of the national economy.

Specific objectives of regional and local economic development should include the following:

- Strengthening the competitive position of regions and localities within regions by developing otherwise underutilized human and natural resource potential
- Realizing opportunities for indigenous economic growth by recognizing the opportunities available for locally produced products and services
- Improving employment levels and long-term career options for local residents
- Increasing the participation of disadvantaged and minority groups in the local economy
- Improving the physical environment as a necessary component of improving the climate for business development and of enhancing the quality of life of residents

Policies to accomplish these aims include sustained investment, medium- and long-term job creation, and the building of local institutions capable of sustaining an area's economic vitality.

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MONETARY AND TAX POLICY

In the 1970s, the Federal Reserve Board began promoting a set of economic management approaches based on controlling interest rates. These policies have led to a relatively high cost of borrowing for the nation's businesses. They are designed to combat inflation and deal with a high-consumption/low-production economy, which has succeeded for some and failed for others. For new small businesses, these policies have meant that money has been tight. For others, however, the reduction in the inflation rate and increase in economic stability have raised business confidence and stabilized both wages and prices. Overall, federal policies have achieved the basic mission of controlling rapid economic growth. For several decades, the United States was in good shape compared with its leading international competitors. The nation's economic strength up through 2007 led to strong job growth and created a wave of industrial production. But it did not halt plant closings or inner-city neighborhood disinvestments. Fundamentally, the nation's basic industries and weak industrial base could not be restored by fiscal policy alone. Indeed, economist Robert Kuttner (2007) argued that there had been a failed thirty-year unnatural experiment in financial deregulation. The goal of the experiment had been the "deliberate dismantling of the mixed economy" (p. 1). Kuttner (2007) observed the following:

> Globalization of capital and commerce makes the project of managed capitalism far more difficult, institutionally and politically. It was the nation state that balanced pure capitalism with regulation and social investment. There is no global government, and financial interests have far more influence than ordinary citizens in transnational rule-setting bodies such as the World Trade Organization and the International Monetary Fund. "Free trade" versus "protectionism" is not a helpful distinction. The real issue is *laissez faire* versus a mixed, balanced economy. (1)

The U.S. purchases more than it sells abroad (U.S. Bureau of Economic Analysis, 2023).

Weakness in the global economy post–Great Recession and the pandemic eroded the demand for U.S. goods and services abroad, whereas the U.S. demand for foreign goods and services continues to exceed exports ($2.7 trillion). Thus, the United States has one of the world's largest trade deficits: for 2022, the goods and services deficit was $948.1 billion, up $103.0 billion from $845.0 billion in 2021 (U.S. Bureau of Economic Analysis 2023).

The reason for this is simply that many foreign goods remain relatively cheap and superior in quality compared with domestic counterparts. Monetary policy alone will not address this situation. The global recession and pandemic made it even more imperative that management in the United States become sensitive to customers' demands both domestic and abroad to compete successfully.

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Tax policy has always been a major component of economic development policy. Federal taxes are sophisticated instruments designed to steer private investment capital. Tax write-offs and loopholes are the primary motivators for short-term investments. Numerous targeted tax credits in new technologies have been implemented in recent years and have stimulated some good and many poor investments. A prime example of the benefits of this strategy has been strong support by Congress for the development of the internet without tax interference or government controls or regulations.

Tax incentives were put in place for the Gulf Coast areas devastated in 2005 and 2006 by Hurricanes Katrina and Rita. These GO Zone tax incentives, as they were known, along with other incentives, provided more than 50% tax credits through rapid depreciation allowances in areas devastated by the hurricanes. But even these measures did not fully bring back customers, and the Gulf region economy appears to be permanently smaller.

Opportunity Zones (OZs) are an example of a nationwide tax incentive to spur economic development in economically distressed communities. The incentive program was created in 2017 and resulted in thousands of designated OZs that state governors nominated.

Foreign investments are also a source of pretax investment dollars. The United States has developed policies designed to insure foreigners pay their fair share. These tax policies, combined with a slow market, may positively influence capital flows to the United States.

Whatever the direction that capital moves, communities must help businesses by planning carefully and aggressively to assist new firms, rebuild old ones, and meet the needs of firms seeking new markets or developing new products. In other words, capital has to be captured—it will not necessarily seek investment.

TRADE POLICY

As noted, the United States continues to experience one of the worst balances of payments (incoming goods vs. outgoing goods) or highest trade deficits in the world. However, at one time, the demand for U.S. products was so great that the nation could barely keep pace with it. At that time, the country was the champion of free trade. The general belief was that the best producers could and would maintain their markets and that tariff protection served only to protect weak industries and underpin weak economies. The North American Free Trade Agreement (NAFTA, enacted in 1994) provided a new platform for the United States in international trade competition. NAFTA supporters argued that increased free trade would eventually bring more jobs to both the United States and Mexico, although in the short term there would be dramatic alterations in the location of employment centers and wage rates in both of these countries.

However, with rising global competition, U.S. goods have not penetrated foreign markets to the degree expected. Further, the trade policies of the European

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Common Market, Japan, and other major trading partners are not as open as those of the U.S. market. Until 2007, the U.S. dollar, as the world currency, was maintained at such artificially high levels that it was difficult for U.S. manufacturers to compete in overseas marketplaces. However, the significant fall in the dollar that occurred in 2007—and that has caused concern among nations that peg their currency to the U.S. dollar—has resulted in greater exports for the United States. Further, although it would be expected that imports become more expensive, the degree to which they have done so appears to have been held down by foreign countries trying to maintain U.S. markets (Andrews 2007b). At the same time, U.S. labor unions, farmers, and even some businesses call for the protection of American firms from unfair international competition. Sometimes this is a retaliatory move against the other country's own import quotas and duties on U.S. goods, as in the case of Japan or China. In other instances, the desire for higher tariffs is a response from an inferior competitive position. Unions and some communities view high tariffs and import quotas as the only mechanism for saving jobs. Whereas some see a protectionist approach as shortsighted, others see it as an important current remedy for workers and firms as well as for the members of Congress who represent the communities that are being adversely affected in the global economy. A companion policy to the creation of shelters for domestic industry is the creation of export subsidies for agriculture. The rationale for this is that U.S. agriculture is in global competition with more heavily subsidized farmers in Europe, Australia, and Asia. The General Agreement on Tariffs and Trade accord on agriculture was almost killed by highly subsidized French farmers. Whether or not the subsidy arguments have an economic rationale, they are politically volatile. Congress has yielded to protectionist sentiments by creating large export subsidies for agriculture.

A substantial body of research indicates that the most heavily protected manufacturing firms have been the least competitive internationally. Clearly, the use of tariff protection and subsidies will mean some short-term improvement in various communities. As Ohlsson (1984) has noted, however, "It is well established in economic literature that tariffs or quotas are not the best policies to achieve goals related to national or sectoral production and employment . . . [and] are even less preferable for achieving regional employment goals" (14).

For these reasons, some economists contend that protection-oriented trade policies cannot discriminate sufficiently to protect a nation's competitive enterprises from less productive firms still in existence due to tariffs. Furthermore, tariff protection as a leading economic policy merely locks dying, uncompetitive firms and industries into certain regions, which only undermines long-term economic viability by discouraging community-initiated diversification into more competitive sectors of the national and international economy. Enhanced domestic policies at the national and local level to foster innovation, thereby creating new industries and jobs, is one of the strongest defenses against increased global competition.

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WELFARE TO WORKFARE POLICY

> The American public has made clear that work by welfare recipients is a defining goal of state and federal welfare laws, the pursuit of which deserves the highest priority in social welfare policy. One of the four goals listed by Congress in the 1996 welfare reform legislation was to encourage job preparation and work. Work among welfare recipients is widely regarded as part of the social contract--a quid pro quo for the provision of income support--as well as a source of self-esteem and self-reliance among single mothers. This in turn is thought to increase the mothers' chances for long-term economic improvement for themselves and their children. (Moffitt 2002)

National welfare policy was always intended to be temporary. Its evolution into a permanent feature of American life surprised and confounded policymakers and social workers. Welfare recipients increasingly did not move into employment. Many of the nation's welfare recipients grew up in welfare-supported homes (Gottschalk 2001).

The general public, including many poor people, came to view welfare with contempt and recipients as principally lazy and licentious persons (Gottschalk 2001). This loss of public sympathy combined with a shrinking employment structure has led national and state policymakers to experiment with welfare, combining it with education and work, as a path to employment. A number of programs were put into effect with the aim of introducing welfare recipients into the work world, some focusing on the prevention or correction of bad work habits that contributed to "unemployability."

Workfare, as this approach is called, aims at requiring welfare recipients to increase their employable skills in exchange for public assistance. This can involve nonprofit agencies employing welfare-eligible people to work in community-serving enterprises. The agency receives the welfare payment plus a premium to provide social services and in turn places the welfare-eligible person on the payroll of a regular but highly subsidized job. It can also involve profit-making firms' hiring welfare-eligible workers at subsidized rates while they develop their skills and work habits.

The evidence on the success of Workfare programs is mixed but not to be discounted. Employment increased among single mothers, most women leaving Workfare find work, and the number of women going onto welfare declined. However, women who exit programs tend to have low incomes and low-skill jobs which means they become part of the working poor, struggling to find care for their children and decent and safe housing. Workfare, as an economic development policy tool, has the potential to increase human capital in low-income populations, thereby making it more possible for localities to strengthen their economic base. However, to raise the standard of living in localities, which also helps attract employers and skilled workers, careful coordination between Workfare programs and skills training programs, along with support services, is needed.

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HEALTH CARE POLICY

For some time, new job creation has been accompanied by declining health benefits. The percentage of the population under 65 years of age with no health insurance coverage was more than 11% in 2020. More than 8% of this group was in the prime working age group of 18–44 years (Cha and Cohen 2022).

The federal government has worked to expand health insurance throughout the nation, starting with the adoption of the ACA of 2010, when the percentage of the population under 65 without health insurance was 18%.

One health tragedy has become enough to send many families into economic shock. Employee health benefits declined both because of their costs and because health policies and practices, such as managed care, decreased the number and quality of health care providers. Health maintenance organizations (HMOs), originally thought to be the salvation of the American worker, turned out not to be as capable of meeting the diverse health needs of the nation as presumed. Many HMOs have been consolidated, and others have gone out of business. Although the health status of the poor has long made them unacceptable risks for many insurers, even middle-class families and self-employed individuals can find themselves blacklisted from reasonably priced private insurance just for taking cholesterol-lowering medicine (Consumer Reports 2007). Thus, a strong attachment to the labor force was no guarantee of access to quality health insurance and care. This was the backdrop of the Patient Protection and Affordable Care Act, or ACA, enacted under the Obama administration. It was a controversial act that many states have challenged because of objections to its mandates.

Passage of President Obama's 2010 ACA expanded public and private insurance coverage in the United States by requiring insurance companies to cover all applicants with minimum standards and provide the same rates irrespective of preexisting conditions. The health care overhaul requires individuals without employer-sponsored insurance, Medicare, or Medicaid to purchase a policy or face penalties. These individuals can purchase policies through a competitive marketplace exchange. Low-income people and families between 100% and 400% of the poverty level receive proportionately scaled federal subsidies for policies acquired through the exchange. Although the original ACA also expanded Medicaid eligibility to ensure coverage for those below 100% of the poverty level, the Supreme Court ruled the expansion optional for states and, as of 2023, there are 12 states that have yet to expand Medicaid eligibility (Cha and Cohen 2022). This has left millions of the nation's poorest lacking insurance, preventing them from accessing either Medicaid or subsidies for marketplace coverage.

The ACA employer mandate requires all companies with fifty or more full-time employees to offer minimum standard coverage. Walmart, the largest employer in the United States, was previously labeled stingy due to the high cost and minimal coverage of the health care it offered to its employees. In 2007, less than half of its 1.4 million U.S. employees were insured. Responding to national- and local-level pressures, Walmart started providing better benefits for full- and part-time workers and endorsed the ACA

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employer mandate in 2009 (Barbaro and Abelson 2007, Stolberg 2009). In response to the employer mandate requirements and rising coverage costs, however, Walmart ended coverage in 2015 for all employees working fewer than 30 hours a week. This affected about 30,000 employees, or 2% of the company's workforce (Layne and Cavale 2014).

In reality, greater than 90% of businesses are considered small businesses under the ACA. Thus, only a small number of businesses are legally required to provide health insurance. In an effort to increase worker coverage, the ACA also included provisions to offer incentives to small businesses for providing employee health benefits through its Small Business Health Options Program.

Since passage of the ACA disparities remain in private health care coverage across racial and ethnic lines. Table 2.1 shows that in 2021, 74.2% and 74% of whites and Asians, respectively, had employment-based or direct purchase private health care, compared to just over half of blacks and Hispanics. The passage of the ACA was highly controversial, and there have been delays in implementation of key provisions that would lessen coverage disparities.

There have been significant efforts by states as well as the business sector to undo the ACA, claiming it is harmful to the economy. However, the United States is the only advanced industrialized nation not to have universal health care (UHC). Some of the nations—whose economic and standard of living advances we rank highly—have long had UHC (year in parentheses is when UHC began): Canada (1966), Finland (1972), Germany (1941), Japan (1938), Singapore (1993), South Korea (1988), Switzerland (1994), and the United Kingdom (1948; New York State Department of Health 2016).

Employment Policy

During the 1960s, employment and training plans were designed to improve the employability of the "hard-core" unemployed or to improve the ability of certain areas of the country or segments of the population to enter the job market. The problem

TABLE 2.1 ■ Type of Health Insurance Coverage by Four Largest Race and Ethnicity Groups: 2021

Race/ Ethnicity	% Uninsured	% Private Health Insurance	% Gov. Health Insurance
White	5.7	74.2	35.7
Black	9.6	55.8	45.3
Asian	85.5	74.0	28.2
Hispanic	17.7	50.5	37.7

Note: Private insurance includes employment-based and direct purchase. Government insurance includes Medicare, Medicaid, TRICARE, CHAMPVA, and other Veterans Affairs care.

Source: Branch and Conway (2022)

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was perceived as a deficiency of skills in an abundant job market: Training would and could solve the skills dilemma. This was only partially true: discrimination, lack of social skills, and poor aggregate job formation in lagging regions or inner-city areas were what prevented most people from entering the job market. The programs were developed under the bipartisan Economic Opportunity Act of 1964 umbrella, or the "War on Poverty," initiated by President Lyndon B. Johnson.

Under President Richard B. Nixon (1969–1974) the introduction of the Comprehensive Employment and Training Act (CETA) initiated a new wave of employment policies driven by economic development. It was recognized that training programs could not solve unemployment problems because there were not enough jobs—and clearly not enough "good" jobs. As a result, training had only marginal impacts on the poor. Therefore, employment planners became concerned with increasing the number of jobs above the poverty line that would pay livable t wages and offer benefits. The CETA program and its successor, the Jobs Training Partnership Act, built expressly on the notion that investments in the workforce must be matched by investments in job creation and retention. Subsequently, federal administrations have continued policies to reduce unemployment and retrain workers for new enterprises, such as the Workforce Investment Act and President Clinton's jobs programs, which have continued this emphasis.

Most recently, President Biden launched a set of America Workforce Initiatives that include Workforce Hubs, Advanced Manufacturing Workforce Sprint, and Good Jobs, Great Cities Academy (The White House, 2023a).

It is important to understand that the "jobs crisis" today still encompasses low job creation in lagging local and regional economies. There remain spatial inequities that disparately affect different ethnic and racial groups and challenge national policy making: Depressed rural farms, factory towns, and inner cities and inner ring suburbs with abandoned industrial sites are in sharp contrast to affluent, predominantly white suburbs and gentrifying city centers with strong employment rates. Macroeconomic solutions are inadequate to address these disparities.

NATIONAL POLICY TARGETING LOCAL ECONOMIC DEVELOPMENT

The national government has always played a role in local economic development planning, although the level of its engagement has varied over time. The federal influence can stem from legislation, policies, or programs for which federal budget expenditures are made. Tables 2.1 and 2.2 show the annual budgets of federal agencies for the wide range of federal entities that are engaged in promoting economic development working at the local and regional levels. However, *explicit* economic development activities where economic development is the principal focus constitute a small percentage of total federal expenditures (less than 1% in 2014).[1] This

[1] This was calculated by dividing the total expenditures in Appendix 2.1 ($15.264 billion) by the total federal expenditures for FY2014 of $3,506 billion.

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TABLE 2.2 ■ Funding of Economic Development in the Department of Commerce, FY 2022

Program/Agency	Funding in Thousands of Dollars	% Funding Received from the Department of Commerce
National Institute of Standards and Technology	1,037,500	1.64
Economic Development Administration	3,311,000	5.22
Minority Business Development Agency	48,000	0.08
International Trade Administration	541,000	0.85
National Telecommunications and Information Administration	50,387,555	79.5
Bureau of Industry and Security	133,000	0.21

Source: Data are combined mandatory and discretionary funding for FY 2022 in "U.S. Department of Commerce Budget in Brief" (2023)

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suggests a low level of engagement, but there are other federal programs and policies that strongly affect economic development. For example, the U.S. government pursues key science and technology initiatives such as the Future of Semiconductors. Semiconductors are used in the chips that go into electronics, cars, and LED lights. Presently, the United States purchases most of its semiconductor chips from other countries. During COVID-19 there was a shortage of chips that affected U.S. manufacturing. In particular, auto manufacturing was held up because of a lack of chips needed for autos' electronic systems.

As Professor Chowdhury of Stanford University stated:

> We're always among semiconductors. They are in your computer, your cell phone, your watch, your car, and even in LED lights. Semiconductors are so important because you cannot run your daily life without them. The smarter the world gets, the more the need for semiconductors will increase.

The U.S. Economic Development Administration (EDA), located within the Department of Commerce, is charged with leading the federal economic development agenda to promote innovation and competitiveness as well as to prepare regions for growth and success in the global economy. EDA has numerous memoranda of agreement with other bureaus within the Department of Commerce as well as other federal agencies to leverage its economic development initiatives. There is wide array of activities that receive economic development funding, and they take place in every type of location, including tribal lands, rural areas, inner cities, downtowns, and suburbs.

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Although national economic policy is important, it is limited in its ability to meet the twin needs of economic sectoral adjustments and regional or local employment requirements. Many federal economic stimulators are designed to facilitate overall economic growth rather than address specific population groups or localities. To stimulate employment growth, national policies must improve the ability of firms to compete and increase the capacity of communities to create employment.

This requires more regionally and locally targeted economic development strategies. Development policies for lagging areas were the cornerstone of President Roosevelt's New Deal program to bring the country out of the Great Depression. The development of the Tennessee Valley Authority, Rural Electrification Administration, Cooperative Extension, and a plethora of other programs aimed at underdeveloped rural areas were essential vehicles for modernizing the rural economy. A key regional focus of President Johnson's War on Poverty was Appalachia. Presidents Kennedy and Johnson also focused on inner cities to stimulate internal development of urban neighborhoods and central business districts hard hit by the development of the suburbs. The federal government enticed many local governments to embark on a set of social and economic development experiments in an attempt to aid communities and individuals who were not benefiting from economic expansion. Neighborhood and central-city revitalization was proposed through the Model Cities Program, along with a new urban focus for the EDA, which had previously served a rural constituency. Urban renewal activities, as well as other government programs, provided local governments with the first impetus to plan for the local economy in a systematic way.

During the Reagan–Bush era (1980–1992), however, many economic development programs to assist localities with physical improvements or industrial support were reduced or eliminated. In the 1970s, for example, the federal government had poured nearly $60 billion a year into urban aid projects ranging from community revitalization projects to schools and job training. It spent more than $5 billion on public service job training alone (Ferguson and Dickens 1999). These funds almost disappeared in the 1980s, and as a result, the hope and spirit associated with urban recovery seemed to fade as well.

But in the 1990s, local economic development—particularly of urban communities—once again moved to the forefront of national policy. There was a dawning realization that the economic success of cities and suburbs were linked, which in turn, meant addressing the problems of the inner cities (Rusk 1993). Over the previous decade, urban economists had painted a grim picture of what could happen to the national economy if the human and economic resources of the cities remained untapped. Finally, the message was heard—not only in cities but in the suburbs as well. Civic leaders in cities and suburbs began to see across their borders that they had a common economic agenda. Furthermore, it became more generally recognized that the economic and social problems of both the cities and the suburbs threatened the country's ability to invest in productive enterprise. As a result, the national administration was free for the first time in three decades to call for regional and metropolitan redevelopment. When the Clinton

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administration took office in 1992, it found allies for a national metropolitan policy among state governors of both parties. Henry Cisneros, secretary of the U.S. Department of Housing and Urban Development (HUD), began to fashion a new agenda for urban America aimed at rebuilding community with social capital-forming citizens at its core.

The idea was to create economically and socially integrated communities as the backbone of the national economy. The White House and Congress worked together to build physical and human capital through programs of loosely linked federal agencies, such as programs to end housing discrimination in lending; establish urban empowerment zones; increase aid to inner-city schools; and offer tax credits for jobs, housing, and economic development (HUD 2000). More recently, federal programs have attempted to build human capital into new enterprise formation: investing in new businesses start-ups in low-income communities rather than trying to persuade firms to move into those communities. This approach is designed to rebuild communities and the local skill base by combining the establishment of enterprise zones with welfare reforms, rebuilding of inner-city infrastructure, and school improvements. For example, the Labor Department has introduced a variety of demonstration programs targeting youth employment that are aimed at linking job formation with skill building and new enterprise creation. Some of these programs show young people how to start businesses; others have strong mentorship components, connecting large and small firms with local schools to work more directly.

The George W. Bush administration, like the Clinton administration, pushed for ending housing discrimination in lending, increasing aid to inner-city schools, as well as offering tax credits for jobs, housing, and economic development. Policies endorsed by President Bush had a place-organizational emphasis, but they were less concerned with increasing social welfare supports than with using market forces and community institutions like churches to revitalize communities and strengthen their social structure.

The George W. Bush administration was particularly proactive in promoting brownfield redevelopment activity through market-based activity. Although the EPA is the lead agency for brownfield redevelopment, other federal agencies—in particular, HUD—have been active as well. The role of the EPA began with its 1995 Brownfield Action Agenda that included brownfield pilot grants to communities; clarification of liability issues for brownfield property owners; partnerships among federal, state, and local agencies to promote brownfield redevelopment; and job development and training for brownfield remediation. Its proactive stance was significantly enhanced with the Small Business Liability Relief and Brownfields Revitalization Act in 2002. HUD administers the Brownfield Economic Development Initiative to promote the return of brownfields to productive economic use. It provides financial assistance to public entities in the redevelopment of brownfields. The Brownfields National Partnership Action Agenda, begun in 1997, brings together more than twenty federal agencies to address brownfield cleanup and redevelopment issues in a more coordinated approach to link environmental protection with economic development and community revitalization.

The Obama administration's economic platform (2008–2012), responding first to the downward spiral that the nation found itself in due to the Great Recession, had to

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focus on strengthening the social safety net and the market simultaneously. After saving the U.S. auto and banking industries from collapse, its economic platform focused on job creation, reform, and fiscal responsibility as well as increasing security for the middle class. The American Recovery and Reinvestment Act created a number of supports for urban communities. Among these were Neighborhood Stabilization Program funds, increased spending for disadvantaged school systems, and broadband access to underserved areas. In particular, the administration's policy reflected a "new metropolitan reality—that strong cities are the building blocks of strong regions, which in turn, are essential for a strong America" (The White House 2012).

The Obama administration particularly focused on boosting manufacturing, energy production, and entrepreneurship for job creation. It was focused on regulations, health care, and tax reform as well as deficit reduction and eliminating federal government waste. Although these areas are practically an automatic focus of each administration, their explicit tie to middle-class security is unique. For example, the administration linked the reform of the financial industry to a law that created the Consumer Financial Protection Bureau to protect consumers and homeowners from exploitive mortgage and payday lending practices.[2] President Obama also passed comprehensive health insurance reform that allows adult children to stay on their parents' health care plans until they are 26, prevents coverage denial for preexisting conditions, and provides tax credits to small business, among other provisions.

National policy can have unintended and negative consequences for economic development. In fact, the need for federal action to spur brownfield redevelopment stemmed from an unintended consequence of the 1980 passage of the Comprehensive Environmental Response, Compensation, and Liability Act. This act was the federal government's attempt to address the environmental contamination that was the legacy of more than a century of industrial and commercial activity. Its initial intent was to promote cleanup of contaminated land and provide opportunities for the EPA to recover cleanup costs from all potentially responsible parties, including past and present property owners as well as lending institutions. However, it had the effect of steering potential investors and developers away from previously developed properties for fear of becoming liable for the contamination on brownfield sites. The subsequent federal brownfield initiatives have been aimed at eliminating this unintended consequence as well as providing market stimulation.

Two additional issues also demonstrate the unintended consequences that national-level decisions can have for local economic development. The first is the Supreme Court

[2] The Consumer Financial Protection Bureau (2012) has defined these loans as follows:

> Payday loans are typically marketed to bridge a cash flow shortage between pay or benefits checks. They generally have three features: (1) the loans are small dollar amounts; (2) borrowers must repay the loan quickly; and (3) they require that a borrower give lenders access to repayment through a claim on the borrower's deposit account. Most loans are for several hundred dollars and have finance charges of $15 or $20 for each $100 borrowed. For the 2-week term typical of a payday loan, these fees equate to an annual percentage rate ranging from 391% to 521%.

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case *Kelo v. City of New London*, which was about the taking of private property by eminent domain for local economic development purposes. The second is the Federal Reserve Bank's focus, during the George W. Bush administration, on increasing home ownership as a means for improving economic opportunity. Traditionally, the power of eminent domain—the right of the government to take ownership of private property for a "public purpose" without the owner's consent—has been limited to the specific needs of public infrastructure development (i.e., utilities, highways, railroads). The city of New London sought to use the power of eminent domain to acquire the property of Julie Kelo and several private owners who did not want to sell for a redevelopment initiative that would put these properties into other private parties' hands. Kelo sued, and the case went all the way to the Supreme Court. In the June 2005 *Kelo v. City of New London* decision, the Supreme Court expanded the definition of "public purpose" to include economic development considerations, thereby giving New London permission to condemn Kelo's and others' properties and transfer them to another private party. There was a significant outcry over the decision at the state and local levels throughout the country. Within two years of the court's decision, in an effort to make sure it could not happen in their location, thirty-five states had enacted reform, and the voting public in ten states had passed ballot measures limiting or prohibiting the use of eminent domain or regulatory takings for economic development purposes (Shigley 2007). *Regulatory taking* refers to land for which the use has been so heavily regulated that it effectively becomes a form of eminent domain. The intent of much of the property rights backlash to the *Kelo* decision was to limit the use of eminent domain as an economic development tool to areas of blight. Further, the definition of what constitutes a blighted area was narrowed in many states.

Key economic development organizations around the country have tried to stop the backlash against using eminent domain for economic development purposes. For example, the International Economic Development Council (IEDC) argued that judicious use of eminent domain was critical to local economic growth and development: Its use to assemble land helps revitalize local economies, create much-needed jobs, and generate city revenues. The council argued that "[if] eminent domain for economic development is prohibited, one person could veto the redevelopment of an *entire distressed community.* This would have the practical effect of making such projects *virtually impossible*" (IEDC 2009).

The subprime mortgage lending crisis that began in 2007 created economic shocks throughout the economy (and affected foreign countries, which have been large investors in the U.S. mortgage market). By the end of 2008, it was clear that the economy had entered into the most severe downturn since the Great Depression: It was in a "Great Recession" from which recovery has been slow.

The subprime crisis had its roots in the Federal Reserve and the George W. Bush administration placing a high priority on "promoting 'financial innovation' and what President Bush has called the 'ownership society'" (Andrews 2007a). In essence, the traditional criteria for mortgage lending were significantly loosened (e.g., requiring a down payment). Subprime lending was focused on individuals with weak credit, who are most often found among the poor. Aggressive financial

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institutions targeted minority communities. Subprime lenders offered adjustable rate mortgages (ARMs). Borrowers were qualified for the loans based on their initial low teaser interest rates rather than the significantly higher rates that they would have to subsequently pay and that many had no realistic chance of meeting. Mortgage delinquency rates, as well as foreclosures, rose dramatically in 2007, pushing lenders and home builders into bankruptcy. Dan Immergluck, a national expert on the housing market, observed that the federal role in promoting the subprime crisis, which disproportionately affected minority communities, stemmed in part from a lack of enforcement of the Community Reinvestment Act and fair lending laws (personal communication 2007). Further, foreclosures affected not only the homeowner but also the surrounding neighborhood and community. For example, Immergluck and Smith's (2006) research found that a foreclosure on a home lowered the price of other nearby single-family homes on average by 0.9%. They also reported that the downward pressure on housing prices extended to houses that sold within two years of the foreclosure. Further, this negative impact was cumulative—that is, each additional foreclosure on the block lowered values an additional 0.9%. The impact was even higher in lower-income neighborhoods, where each foreclosure dropped home values by an average of 1.44%.

Large portions of cities were affected by the subprime mortgage crisis to the extent that some entire cities were in crisis (see Economic Developments 2.1). The crisis did not only affect inner cities in older areas throughout the nation; it also affected fast-growth suburban areas, particularly in places like California with high levels of minority populations.

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ECONOMIC DEVELOPMENTS 2.1: CRISIS AND RESPONSE: LASTING EFFECTS OF THE GREAT RECESSION[3]

In 2008, the city of Cleveland filed a lawsuit against twenty one of the country's largest financial institutions, including Citigroup, Bank of America, Wells Fargo, and Merrill Lynch. The city sued them for hundreds of millions of dollars in damages from "knowingly plunging the city into a financial crisis by flooding the local housing market with subprime mortgage loans to people who could never repay" (Maag 2008).

Cleveland's economy was severely affected by the Great Recession. There were more than 7,500 foreclosures in 2007, and entire blocks became vacant with houses falling into disrepair. The city could neither afford to maintain the abandoned properties nor address the rising rates of violent crime, drug dealing, and arson. Officials attributed the "widespread abandonment of homes" and neighborhood

[3] See Blakely (2001) for a full discussion of these relations.

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deterioration to the Wall Street bankers' careless behavior and hoped that the lawsuits would be a successful means of winning back resources to rebuild the city (Maag 2008). Rather than target the original lenders that handed out subprime mortgage loans in Cleveland, many of which had gone out of business, the lawsuit went after the larger firms that knowingly profited from bad credit loans, first by approving the loans and then grouping them into securities that would be divided into shares and sold on the stock exchange (Maag 2008).

After a two-year costly litigation, the U.S. Sixth Court of Appeals supported the district court's decision that Cleveland could not recover funding because the connection between the bankers' risky behavior and the city's foreclosure crisis was insufficiently direct. Senior Judge Richard Suhrheinrich argued that Cleveland's high rate of foreclosures could have been due to other factors, "including home buyers themselves choosing to enter into subprime mortgages" (Stempel 2010). The judge argued that instead of a citywide lawsuit, a claim from a particular neighborhood might more effectively prove the connection between individual foreclosures and unfair bank practices.

In February 2012, the U.S. Justice Department and forty-nine state attorneys general reached a $25 billion settlement in a joint federal–state lawsuit against the five biggest lenders involved in the subprime mortgage crisis, including Ally, Citigroup, Bank of America, JP Morgan Chase, and Wells Fargo. Although most of the settlement money went to individual borrowers, several billion dollars were dedicated to anti-blight activities in cities or regions left with high numbers of abandoned, vacant properties. Cuyahoga County, where Cleveland is located, still had 22,000 vacant homes in 2014. Two million dollars of the settlement went to the North Coventry neighborhood, the location of which is split between East Cleveland and Cleveland Heights. This money has been combined with other community funding sources to tear down vacant and dilapidated houses. The properties are being acquired and rehabilitated by the Cuyahoga Land Bank, which in turn, increases the neighborhood's home values and potential for redevelopment (Sandrick 2015).

Funding and revitalization programs are critical for addressing the uneven housing recovery of lower-income neighborhoods relative to that of middle- and upper-income neighborhoods. There has been a much stronger recovery in housing prices in wealthier communities, often returning close to what they had been before the Great Recession. As of March 2015, in wealthier neighborhoods with homes valued above $200,000, only 6% remained underwater, meaning those homeowners owed more than their houses were worth. In contrast, in neighborhoods with homes valued at less than $200,000, the underwater rate was 15%, or two and a half times greater. Even when homeowners remain current on loans for underwater homes, risk-averse banks frequently deny their applications for refinancing that would lower interest rates and strengthen financial circumstances. Owners who cannot refinance tend to invest less in their homes, further driving down neighborhood property values and increasing foreclosures. With more vacant properties, housing values further decline, leading to more foreclosures. Low-wage workers during the recovery have experienced little income growth, making it even more difficult to break out of this vicious cycle (Light 2015).

Not unrelated to the income trends discussed, African American neighborhoods that were disproportionately targeted for underwritten subprime mortgages have had weaker recovery rates than those of majority white neighborhoods.

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In Cleveland, east-side neighborhoods with the highest percentages of at-risk loans (ARMS and high-cost mortgages) and, consequently, the highest foreclosure rates, were also the neighborhoods with the highest African American populations (Dillman 2010). Now that banks apply more stringent mortgage regulations, they have reduced the number of loans to black borrowers by 50%, compared to a 31% reduction to white borrowers (Raymond, Wang and Immergluck 2015). Because banks are less willing to lend to lower-income blacks, demand for homes and investment in minority neighborhoods has declined, resulting in more vacant and derelict homes and greater decline in home values.

Income and racial disparities have been exacerbated by the uneven economic recovery. These disparities intensify the need for cities to incorporate a strong focus on equity in their local economic development strategies.

COORDINATION OF LOCAL AND NATIONAL DEVELOPMENT EFFORTS

Communities across the nation develop their own industrial and broader economic development policies using various approaches. If a national policy—for example, one to promote advanced manufacturing or to increase exports—is adopted at the national level, it will have little effect unless there is companion policy at the local level to take advantage of available federal resources as well as to muster local resources.

In general, almost all federal *development* efforts have had a brick-and-mortar orientation. The role of the federal government in stimulating economic development in the poorest regions has been to provide the physical conditions and infrastructure to induce development rather than direct intervention in the private sector (except for the War on Poverty). Some marginal interventions have been companions to these physical programs, like the location of military facilities and government offices.

Both the federal government and local officials have tacitly agreed that federal government should remain in the background, using its money but not its muscle to bring about economic change. But now federal funds available for local use are diminishing, and although local officials have more need for federal assistance, less is forthcoming. For example, military base closures have affected hundreds of communities over the years. As a result of smaller budgets, local and state governments are hard pressed both to meet social commitments to the unemployed and stimulate development. The liberal use of economic incentives has to be reconsidered given shrinking state and local government revenues.

The federal government's response to the need to curtail the growth of public programs and subsidies has been to reduce the red tape and strings attached to its funding as a means of increasing positive impacts. Essentially, the national government has given local officials more authority to deal with the fewer resources they receive for their locality. This gives many local residents the impression that local policymakers have more discretion over federal funds and more options to cure local problems. But

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the simple truth is that there are more problems than there is money. Local officials have to use the funds they have as investments in the future, not as temporary aids to meet current emergencies. This is why local economic development is both necessary and difficult.

The federal government's response to the needs of communities and individuals has been and will continue to be under significant revision since the War on Poverty era. But whatever the federal government response, communities faced with plant closures and other business failures, high unemployment, labor skills shortages, environmental degradation and climate change impacts, growing inequality, and public assistance burdens simply cannot afford to risk a laissez-faire approach to their own destiny.

STATE ECONOMIC DEVELOPMENT APPROACHES

Although the national government has been somewhat reluctant to develop active economic development policies, the U.S. federalist system gives states great powers to do so. Almost every state in the union has an explicit or at least a discernible implicit economic development policy. State policies range from a statewide tax or incentive plan to more complicated programs that provide targeted incentives for specific industries. In fact, the states offer a bewildering array of policies. For example, several states have abolished certain taxes as implicit development incentives. Some, like Oregon, have no state sales tax; others, like Texas and Florida, have no income tax. Nevada has almost no taxes on residents and builds its state budgets on tourism and hotels, along with gambling revenues. This policy has induced a number of durable goods and transportation firms to relocate from California to Nevada.

Most states have a state development plan and a state economic development office. In some states, the economic development office is in the same location as the governor's office. In many other states, it is a major state department with responsibility for recruiting businesses as well as creating and retaining jobs in the state. State economic development offices do everything from coordinating other state agencies to promoting the state via glossy brochures and a long list of incentives. Bradshaw and Blakely's (1999) study of state economic development policies and programs found that those concentrating on business retention, human skill development, and infrastructure building showed the best overall economic development results (see Table 2.3).

Phases of Economic Development

There has been an increasing array of services and inducements offered by states as well as sophistication of state policy and program tools for promoting economic development. In general, the evolution of these tools follows the pattern of what can be seen as five waves of economic development practice at the state and local levels. The transition from business attraction to broader perspectives on economic development is a predominant theme of the descriptions of the first three of these phases (Bradshaw and

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TABLE 2.3 ■ Characteristics of Innovative State Economic Development Programs

Leadership
Emphasis by governor on economic development
Business "welcome" events
Business councils, industrial associations
Worker compensation and tort reform
Environmental ombudspersons
Lotteries
Building community capacity to do attraction and retention
Information
Technical assistance and standards
University outreach programs
Electronic bulletin boards
Site information
Partnerships to do planning and promotion
Brokering
Permit one-stop shops
Coordination of economic development with other programs (e.g., housing)
Interstate regional cooperation
Marketing

Source: Bradshaw and Blakely (1999, p. 241)

Blakely 1999, Fitzgerald and Leigh 2002). The phases continue to evolve and are both chronological and overlapping—that is, although their emergence may be associated with a particular point in time, the predominant practices associated with each have not disappeared. Instead, state and local economic development agencies typically engage in practices from more than one of the phases.

The first phase, that of industrial recruitment, began in the 1930s. Economic development practice was concentrated on creating a good business climate through tax abatements, loan packages, infrastructure, and land development. Although its beginning is often associated with the post-Depression period, in reality the southern states were actively recruiting industry from the end of the Civil War onward (e.g., see McMath 1991). This phase was informed by two theoretical perspectives: a regional and community development perspective drawing on international development theory and an industrial location perspective drawing from firm behavior theory. Both perspectives sought to identify the causes of regional growth and development and how local efforts can alter this path. Further, economic development potential was seen to be predicated on the local area's export base. The directing of public funds to private-sector firms to influence their location in this phase marked the beginning of what later came to be labeled "corporate welfare" (Bartlett and Steele 1998).

After World War II, southern states with declining agricultural bases were particularly aggressive in using inducements to attract manufacturing plants to their low-wage

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and low-union environments. Millions of jobs moved into southern states due to these strategies. Ultimately, virtually all states were competing for jobs that were moving around the country, professional industrial relocation agencies were established in all major cities, and incentives became expected costs of obtaining a factory for any of the many regional industrial parks that were being established with federal funds. Not surprisingly, this strategy was termed *smokestack chasing*.

Civic leaders viewed the industrial attraction concept and methods positively during the long wave of economic growth because there were generally enough new firms and growth for all communities to share. Although spirited competition existed among different localities, the general view was that the economy was dynamic enough to accommodate any reasonable bidder.

However, as growth subsided and as most states became involved in business attraction, the price of the incentives needed to induce a plant skyrocketed, and businesses learned to play one location against another to extract more costly incentive packages. The National Governors Association became concerned that states were losing money and gaining few new jobs from this reckless activity. Moreover, existing businesses saw that their out-of-state competitors were receiving benefits that placed older, loyal, local firms at a distinct disadvantage compared with the newcomers.

The second phase was characterized by political critiques of local economic development practices that began in the late 1960s and were spurred by factors such as manufacturing decline and failure of urban redevelopment efforts. Economic development analysis shifted its focus from implementation of techniques and strategies to identifying the participants in the economic development process and their motives as well as the beneficiaries of the process. Political economist Molotch's (1976) classic article "The City as a Growth Machine" argued economic development activity was led by landholding elites interested in increasing the value of their property. He argued that job creation, one of the main justifications of local economic development practice, was not increased by the activities of economic development practitioners; instead, jobs were merely transferred between locations. By the late 1970s, rising global competition along with a stagnant world economy led some to dismiss business attraction efforts as smokestack chasing of footloose industry that did not provide the jobs and wealth creation promised. The interests of cities and states, and the businesses within them, were not mutual: Cities and states sought stability of the employment and tax base, whereas firms sought mobility to produce in the place of lowest costs or highest profits. Approaches in the second phase retained a component of business attraction but added strategies to retain and expand existing businesses and incubate new enterprises. The tools of the second phase included offering incentives to businesses that were losing their competitive edge and providing expansion loans and grants to firms with new markets that could expand locally or globally, such as those in new technologies. They also included the establishment of small business units to assist small business formation and growth.

Two more strategies, both in reaction to the failure of the first two traditional strategies, were introduced in the third phase of local economic development. First,

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the entrepreneurial strategy represented a shift from supply-side industrial attraction to developing new business and industry, particularly in sectors perceived to be high tech. Other entrepreneurial strategies included international trade promotion, venture capital funds, and small business development (Eisinger 1995). More recently, creative class attraction and development schemes (Florida 2002) can be seen to be an extension of the entrepreneurial strategy. Second, the equity strategy emerged in the late 1970s and early 1980s to confront growing issues of inequality. It advocates place-based strategies that focus on issues of equity and redistribution. It also expands the notion of who participates in local economic development decision-making to include neighborhood organizations, civic groups, and labor unions, and it introduces new ways of examining old problems (i.e., identifying race and gender implications).

The third-phase programs that emerged in the 1990s focus on using regional resources to support the growth of specified industrial clusters of related firms as well as providing new emphasis on building local capacity through education and training of the local workforce. They attempt to link technology, human resources, and capital in such a way as to give networked firms a global competitive advantage. These programs are based on the recognition that the skill of the labor force is essential to the ability of New-Economy firms to compete, so they strengthen the links between schools and colleges and industry, for example, by establishing specialized certificate programs. They also emphasize local participation in industrial associations, collaborative product-testing facilities, and the like. Third-phase programs, unlike their predecessors, offer few direct investments or gifts to businesses. Instead, they help businesses finance expansions and respond to technological change by a variety of funding options that involve access to credit or low-cost lending. Rather than simply assuming that communities will benefit from individual firm decisions, current programs attempt to create the context in which locational advantages and industrial bases can be used to the advantage of the region.

Numerous states have now developed third-wave initiatives based on increasing the real competitive advantages of the state in national and international terms. As Fosler (1991) noted, they are interested in "achieving high levels of productivity and competitiveness that increase income and provide a high standard of living and quality of life for all residents. . . . They are concerned with the ways in which workers and businesses interact in networks and clusters" (5). To this end, states on an international border, such as Texas and Washington, are even creating cross-border economic development strategies. Many states now have international offices to coordinate goods, services, and people exchanges as a bridge to long-term economic partnerships across international cultural boundaries.

Bradshaw and Blakely (1999) found that the most progressive states (e.g., Washington, Nevada, and Florida) had designed well-thought-out plans that included the active participation of state stakeholders, including nonprofits, community groups, and businesses. That is, economic development policy had moved beyond the sole province of the private sector. State officials recognized that important actors like

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schools and churches had to be included in any attempt to rebuild a civic agenda that would induce new business and keep existing firms. State strategies, like California's, have built on successful public–private collaborations, such as the joint venture Silicon Valley. This recognition complements the widening of professional focus during the third phase to confront issues of socioeconomic inequality and to become advocates for those passed over in the development process. The introduction of equity planning into economic development has necessitated a different set of questions in creating and evaluating economic development strategies and particularly focuses on who benefits and who pays in the development process. As Fitzgerald and Leigh (2002) observed, "In addition to expanding participation in the planning process, equity planning introduces new ways of examining old problems such as identifying the race and gender implications of economic development strategies and programs" (17). They went on to note that equity planners still represent only a minority voice in economic development practice.

The fourth phase can be characterized as sustainable economic development. Economic development was called on to be environmentally sensitive and responsible to the equity criterion of the third phase. Campbell (1996) argued that economic development planning was required "to 'grow' the economy, distribute this growth fairly, and in the process not degrade the ecosystem" (297). Jepson and Haines (2003) interpreted sustainable economic development to be that which emphasized self-sufficiency over an export-based economy and development over growth. Newby (1999) argued that sustainable local economic development (SLED) should be the vehicle by which to achieve sustainable improvements in quality of life. She observed that it is too often "assumed that what is 'good for the economy' is automatically good for society." Further, how economic development is implemented has profound positive or negative impacts on society and the environment. Consequently, the practice of SLED considers the entire range of economic development and regeneration options available, appraises their individual impacts, and prioritizes "those approaches that yield social, economic and environmental benefits together, rather than one benefit at the expense of another" (68).

The fifth phase of economic development, beginning in the 1990s, was originally characterized by two approaches: the first relying on market solutions and the second promoting metropolitan or regional strategies. Porter's (1998) work on competitive advantage has been highly influential in this stage. Economic developers are called on to identify unmet demand, provide government facilitation and financing, and encourage public-private partnerships for minority firms and market developments. In recognition of the negative consequences of urban sprawl and associated traffic congestion on local economies, economic developers and other development officials have been taking steps to revitalize obsolete or underperforming areas. The approaches first pursued in major metropolitan areas have diffused to smaller metro regions and even small towns as the high auto and truck dependency of U.S. local economies of all sizes has resulted in pervasive sprawl.

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The market emphasis of this stage can be seen as akin to the viewpoint Newby (1999) critiqued in this quote: "What is good for the economy is good for society." Without explicit commitment to larger sustainability principles, the phase has the potential to yield unintended consequences such as new gentrification trends whereby the higher-income residents of a region are returning to enjoy newly revitalized downtowns and urban life, and the poor are displaced to declining suburbs that lack necessary support systems and public transportation needed to give them access to the economy. Although the spatial focus of this phase is regional or local, states have played a significant role in fostering its implementation.

As was noted at the outset of this section, the five phases described are overlapping. We can continue to observe the dominant characteristic of each phase in economic development practice today. The continued implementation of strategies associated with different phases rests on the explicit or implicit definition of local economic development held by the practitioner and the economic development.

CHALLENGES AND OPPORTUNITIES INHERENT IN ECONOMIC DEVELOPMENT POLICYMAKING

To implement strategies appropriate to economic development, states will need, more than ever, to strengthen ties with policymakers in specific regions and localities within their purview. Simultaneously, community policymakers taking up the challenges of local economic development will be well served if they maintain a broad, realistic view of their available alternatives. To implement the most effective, most integrated policies, whether state or local, almost all U.S. communities will have to come to terms with the following:

- Economic development will be much less about a community having lower costs of production than about a high quality of life and community assets that attract and retain knowledge-intensive and innovative firms and their workers. This means that communities must provide for quality housing and neighborhoods, educational systems, mobility, health care, and cultural facilities.
- *Attracting* new manufacturing firms continues to fade as a viable strategy for communities seeking to increase local employment opportunities. However, communities should recognize that existing manufacturers may continue to be competitive and sources of good jobs. Further, there may be opportunities not only for the development of small- and medium-sized advanced manufacturers but for the birth of artisanal manufacturing and 3-D manufacturing activity. Furthermore, communities and regions need to become directly involved in cultivating firms from the advanced information and service sectors mentioned earlier, or from other areas of activity, as their new base employers. Communities must look to human capital as the critical

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engine for economic development. Job creation is now based on talent pools that create new economic activity rather than competing to move existing firms around the nation or the world.

- American communities could once rely exclusively on their regional and national market positions to determine local economic stability, but this is no longer the case. Today, a global economic system predominates. In many instances, as in the cases of Los Angeles, New York, San Francisco, and Miami, regional ties to the international economy are more significant than their ties to the domestic economy. Numerous programs are showing that because of the major changes in the international economy—rather than in spite of them—local communities can pursue development policies that complement national economic objectives. Clearly, larger metropolitan export-oriented economies can take advantage of international development options more readily than can smaller rural communities. Nonetheless, it is important that every community pursue economic policies that enhance or facilitate local industries with international potential and that meet the employment needs of all community residents.
- Communities based on a single industry (such as agriculture or mining) or a few major employers will be more vulnerable than those with a more diverse economic base. As a result, communities with narrow or declining economic bases will have to develop more sophisticated economic strategies to remain economically and socially desirable places.
- All American communities have increased pressure to develop programs that deal with adult long-term unemployment. In addition, new (young) entrants to the labor market, particularly teenagers, will have location-specific employment problems related to job access as well as to undereducation and undertraining. Poor job access can be due to inadequate transportation; lack of informal information networks that connect people in all communities to new opportunities; or lack of knowledge regarding positions created with unfamiliar names and opaque skills requirements in new, small, fast-growing firms; or as is increasingly the case, a mismatch between jobs and the social attributes and language skills of the job seekers.
- Comparative geographic or transportation advantage is no longer determined solely by the availability of natural resources. Increasingly, location per se, as that term relates to proximity to markets, natural resources, or transportation, is less important in today's economic circumstances than the availability of specialized technology-oriented infrastructures, such as research facilities, higher education services, high-quality and up-to-date telecommunications, and special financial assistance to accommodate business start-ups or

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expansions. The quality of support services in a locality directly determines the potential for new economic activity. Thus, irrespective of their geographic location, localities may be able to construct alternative economic futures by carefully assessing and achieving the best match among their physical, natural, and human resources.

- As the first decades of the twenty-first century make clear, local economies and major portions of state economies can be devastated by acts of terrorism or nature. Economic Developments 2.2 recounts the economic costs of several recent natural disasters. The extent to which communities can recover their economic development positions and move forward will depend on how well they anticipate and prepare for disasters. Resiliency planning should be seen as a fundamental component of long-term economic development policy and planning.

ECONOMIC DEVELOPMENTS 2.2: NATURAL DISASTERS' IMPACTS ON ECONOMIC DEVELOPMENT

The 2007 Georgia drought has repeatedly been called one of the most severe in the state's recorded history. Even before the drought intensified in the fall, the University of Georgia Center for Agribusiness and Economic Development estimated $787 million in agricultural losses alone (estimate as of July 2007). The landscaping industry's early estimated financial losses were $1.2 billion, and the industry's estimated job losses were around 12,000. Not included in these early estimates are the recreational establishments, hardware stores, feed stores, and others that depend on rain and the health of Georgia's Lake Lanier. It will be years before the state's sizable forestry industry can estimate its losses due to drought-induced slowed growth or premature death of trees or economists can comprehensively determine the drought's secondary economic impacts to farm equipment and supply dealers and retailers and others that agricultural businesses (and their employees) regularly utilize. The economic losses incurred were a major factor in Georgia drafting its first Comprehensive Statewide Water Management Planning Act despite calls for such a plan for many years. Key economic development and industry representatives in the state were involved in drafting the plan.

The year 2007 also marked one of the most devastating and costly series of wildfires in California. In October 2007, a series of twenty-three fires ravaged Southern California, with San Diego County's "Witch Fire" being the most significantly destructive. Seven deaths have been attributed to the fires, and early estimates are that the fires' economic impact will be well above $1 billion when all insurance, job, and income losses as well as other measurable losses are considered. Some estimate the impact in San Diego County alone will be $1 billion. California's farm and tourism industries experienced unrecoverable losses, government budgets

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were stretched by the necessary emergency services expenses and infrastructure cleanup in the aftermath, and homeowners will experience as of yet unknown losses in property values and increased insurance rates. Early estimates from the state's Labor Market Information Division were that the fires directly affected 3,135 businesses, 41,394 jobs, and $512 million in wages. Add to that the as of yet unknown estimate of losses in sales, and the direct impact to businesses and wage earners was significant.

The 2007 Georgia drought and California wildfires—projected to be the "most costly" drought and fire events in U.S. history—follow two years after what has been determined to be the most expensive natural disaster in U.S. history: the 2005 ravaging of the Gulf Coast by Hurricane Katrina. The U.S. Department of Commerce National Climatic Data Center reports that Hurricane Katrina's preliminary cost estimate was $125 billion as of March 2007. Much of the comparatively high cost can be attributed to the foreseeable break in New Orleans's levee system, which caused significant flooding, deaths (approximately 1,833), and devastating economic losses to the city.

These increasingly costly natural disasters raise the question of what factors are within local economic development professionals' control to curtail the cost of these events to people, businesses, and governments. Could the costs of Georgia's drought have been less severe—or even avoidable—if state governments had previously negotiated a more favorable water sharing agreement? Would the losses in Southern California have been measurably less if land-use patterns had been more sensitive to potential wildfire patterns? And few, if any, can argue that New Orleans's losses would have been much less if the city's levees had originally been built to sustain the impact of a Category 5 hurricane. Pre-Katrina, engineers agreed that the levees would break and water would flood New Orleans should a hurricane of that magnitude hit the city. All levels of government failed to address this known threat to the city in time to save it from Katrina. The Katrina disaster can be said to have catalyzed a movement of resiliency planning, which will be discussed later in this book. The federal government has played a key role in helping communities become better prepared for such disasters.

Sources: "Billion Dollar U.S. Weather Disasters" (2007), "Economic Impact of the 2007 Southern California Wildfires" (2007); Schoen (2007); Shearer (2007); Veiga (2007).

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CONCLUSION

From the national government point of view, the rationale for state and local economic development policies is to bring about a more equitable distribution of development and to take advantage of the enormous capacity of localities to promote and sustain the development process. The underlying assumption is that local economic adjustment is a vital component of facilitating sustained national economic performance.

In our evolving economy, economic development at the local level is set within the context of national and international forces that inevitably affect local opportunities and create local economic development opportunities as well as challenges. Globalization

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provides significant benefits to local firms in terms of expanded markets, production efficiency, and sources of innovation and personal talent. But it also means that local companies are players in a global economy whether or not they want to be and as such are influenced by a wider array of forces outside their control than ever before.

From an economic development perspective, localities cannot control what happens in the global economic system and neither can their state government or even the federal government. However, this does not mean that local economies must simply be victims of unknown forces. Communities need to learn about the external economic forces shaping them and work to position themselves to take advantage of opportunities and to avoid external threats. They must be entrepreneurial in seizing opportunities, cutting losses, investing in strategic programs, and leveraging their assets to compete in the global economy. No matter what actions they take, local communities will have to stretch current resources and find ways to increase public and private productivity.

Local communities cannot expect to succeed in the global economy either by looking for handouts whether from the federal government or from corporate saviors or by working independently. First, they must know the rules of federal economic development policy and understand how trade policy, money, labor, and technology are affecting the industries that are of central importance to them. They must also identify what their assets are and mobilize them to respond to the changes occurring in the global economy without waiting for a federal program to assist them. If such a program or funding source exists, by all means the local community should take advantage of it, but that should be a supplement to the local initiative and not the whole package. Moreover, now that businesses are so mobile, big businesses and industries are not the core resource for local economic development that they once were. Thus, a broader strategy to increase employment is needed than only the attraction of large firms. Businesses and other resources flow toward communities that are successful and away from communities that are declining. But even the most destitute community has resources that can be leveraged to restart business growth, and this can then attract other resources that are needed.

Second, communities in the global economy cannot work alone. This counters all the old wisdom about how communities are in competition with each other for a limited number industries moving around, so that it is either one community or another that gets the industry. In an economy characterized by knowledge resources, specialization, and rapid change, local communities rarely can compete by themselves for an edge in the development process. Development is likely to come not in the form of a factory but in the form of a set of interrelated firms. Employees are drawn from a wide region, and specialized services in the area benefit several firms. Training facilities, transportation, information, and marketing in the area give local firms additional advantages. Thus, a network of communities joined by an effective collaboration to provide collective economic development resources will be more attractive than any single community by itself. Consequently, although national policy sets the context for successful local economic development, communities prosper by replacing competition with collaboration.

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