

Commentary

The Mosaic of Economic Development

Local Pieces of a National Whole

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For many years, local economic development activities have been justified on grounds of job creation and tax revenue enhancement. Although increased employment and an improved tax base are reasonable goals, organizational and political conflicts can frustrate the success of a community-based economic development program. Local bankers, insurance and utility company executives, real estate brokers, developers and large landowners concerned with property values and stocks of local wealth support tax revenue objectives and real estate development efforts. Physical development strategies offer a high return for propertied interests of a community. Local labor, industrial and neighborhood groups, on the other hand, favor employment programs and business development. These strategies include business starts, expansion and acquisitions which have a significant impact on job creation and retention.

adopting a national
economic perspective

Given limited public resources, conflicts may arise when choosing between real estate development and business development. Should the locality emphasize employment or tax base? This is a very sensitive question. It is an issue best resolved by non-mutually-exclusive economic development programs. Fortunately, time constitutes an effective arbiter of potentially competing policies. Public policies which favor job creation at their outset, for example, do not preclude real estate investments at a later date. A preferred program, of course, might involve a *mix* of job creation and physical development projects. This "balanced" approach would potentially serve the needs of a broader constituency without the disruptive effects of radical policy changes.

Conflicts between local economic development objectives may also be mitigated by extending community goals into a national economic perspective. In this context, local job creation and tax base enhancement objectives can be subordinated to national goals and, thus, made acceptable to the competing interests of a particular community. Innovation, new product development and productivity improvements are central concerns of a national economic development perspective. Most traditional economic development programs do not, however, regard these concerns as important. Many local efforts, such as branch-plant recruiting, only redistribute investment from one locality to another. No new jobs and no new forms of wealth are created for the nation as a whole.

From a national perspective, local economic development strategies may be only superficially productive. Many localities pursue policies that result in either export promotion or import substitution. Local export promotion and import substitution activities can only contribute to national economic growth when factor inputs are used more productively or if new products and processes are developed. When substitution and replacement occur, however, these activities result in gains and losses that are compensating among areas. Such constant-sum activities are counterproductive for the nation's development. It is an economic impossibility for all communities or areas to be simultaneously increasing exports and reducing imports. Export diversification is subject to the same criticism as export promotion and import substitution when it fails to introduce innovations. One area may be able to improve its balance of trade in the short run by producing a wider mix of products for export. Of course, if all communities pursued this strategy, export diversification would result in lower export prices and less favorable terms of long-term trade for *all* exporting areas.



Some local business development strategies are more consistent with the goal of improving national economic well-being than others. Programs which encourage entrepreneurship, new business formation and the expansion of existing industries are superior strategies because they tend to promote innovation, product development and productivity improvements. Retooling facilities and retraining workers to stabilize existing industries and the acquisition of viable economic entities abandoned by conglomerates or retiring founders are also sound policies for a national economic development program. Local strategies designed to avoid business contractions, plant closures or strategies which interfere with the diffusion of corporate facilities are usually inferior alternatives.

Local professionals and policy makers should study and revise local economic development strategies to better match their contributions to *both* an improved local and national economy. They should resist mercantile positions and zero-sum strategies even if they are politically popular. Local development professionals should encourage positive-sum efforts. In an economic system that is highly interdependent, parochial public aims and strategies will retard long-term local economic development.

The pursuit of a positive-sum portfolio of local strategies is no more difficult than beggar-thy-neighbor strategies. The *impact* of positive-sum efforts on a wide range of economic activities, however, will be substantial for the growth of the community and the nation. As advocates of long-range planning, economic development planners should work to educate and initiate nationally responsible development policy.

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