Rethinking Federal Policy for Regional Economic Development

By Mark Drabenstott

Economic development policy is a major priority of the federal government. Over the past century, Congress has created a panoply of programs aimed at economic development in communities and regions. These programs have sprung up at different times, with different goals, and with different ways of meeting those goals. Yet taken together they add up to a big priority and a lot of dollars. By one estimate, the federal economic development effort spanned 180 programs in 2004 and spent more than $180 billion.

This is a critical time to take stock of this federal effort. The current deficit makes every dollar count in Washington. But there is a far more compelling reason to rethink federal policy for economic development: *The world has changed but federal policy has not.* Globalization of markets for goods, services, capital, and currencies has fundamentally changed the rules of the game in economic development. The problem is quite simple: Most federal programs for economic development were written for the economy of the 20th century, not the 21st century.

*Mark Drabenstott is vice president and director of the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City. Sean Moore, a research associate at the Center, helped prepare the article. The article is based on a full-length report, "A Review of the Federal Role in Regional Economic Development," published by the bank in 2005. Both the article and the report are on the bank's website at **www.KansasCityFed.org**.*

This article examines how federal policy might shift to align with the new global economy. Three steps are essential in framing those shifts. The first section shows that federal programs are highly fragmented today, that programs largely assume that all regions grow the same way, and that federal spending is focused heavily on physical infrastructure for an industrial economy. The second section shows that economists believe the drivers to regional growth have changed dramatically over the past decade. Regions now grow when they gain a competitive edge in rapidly changing global markets. Within this new context, a region's capacity to innovate and its ability to grow entrepreneurs are keys to success. The third section shows that three shifts in federal policy will be important if the nation wants to help regions hone their competitive edge:

1. Make regional competitiveness the goal of federal regional development policy and align federal development programs accordingly;
2. Design new efforts to help regions seize innovations and grow entrepreneurs;
3. Create an effective delivery system for taking federal programs to regions around the nation.

These are big policy steps, but so are the stakes. The federal government has a clear goal to spur the macroeconomy. But what is its stake in regional economic growth? Some would say that the federal government should be interested in ensuring economic opportunity for all corners of the nation—that equality of economic opportunity is a national goal. That may be, but today the federal government stake in regional economic growth is even more compelling. More experts now conclude that vibrant regional economies boost macroeconomic growth. Other experts conclude that the ability of the U.S. economy to compete on the global stage increasingly is determined by how well individual regions of the nation compete. Put simply, the drivers of national economic competitiveness are now regional in character. Paying attention to federal policy for regional development, therefore, promises to pay dividends for everyone.

II. THE CURRENT FEDERAL ROLE IN REGIONAL ECONOMIC DEVELOPMENT

What is the federal government doing now to spur regional economic development? The answer is not at all obvious. There is no definitive list in Washington of economic development programs. What is more, the programs that do influence economic development have sprung up in virtually every corner of the federal government over the past half century or more. Answering the question, therefore, requires an extensive search through the nation's capital.

A good starting point is to define economic development. Unfortunately, even the economists that write the textbooks on this subject do not agree on a single definition. In general, however, there is agreement that economic development involves both the restructuring and growth of an economy to enhance the economic well-being of people that live in a particular place (IEDC). While jobs are often the means to this end, experts agree that key outcomes are rising income and wealth (Cheshire and Malecki 2004; Blair 1995). The process of economic development involves combining the labor, capital, and technology found in that place in innovative ways that lead to rising economic welfare (Blakely and Bradshaw 2002).

One of the key players in the economic development process is government. Government serves as "referee," establishing the "rules of the game" through legal, business, and regulatory frameworks. It also makes pivotal investments the private sector would not make (economists call these "public goods"). These investments take many forms but generally serve to enhance a region's workforce, infrastructure, technology, or ability to innovate (IEDC). In the United States, all levels of government—federal, state, and local—are involved in shaping economic development.

The Center for the Study of Rural America conducted a comprehensive review of all federal programs having a clear connection with economic development as broadly framed above. The Center started with the definition used by the General Accounting Office (GAO 2000). Under that definition, an economic development program does one or more of the following things:

- Plan and develop economic development strategies;
- Construct or renovate nonresidential buildings;
- Establish business incubators;
- Construct industrial parks;
- Construct and repair roads and streets; and
- Construct water and sewer systems.

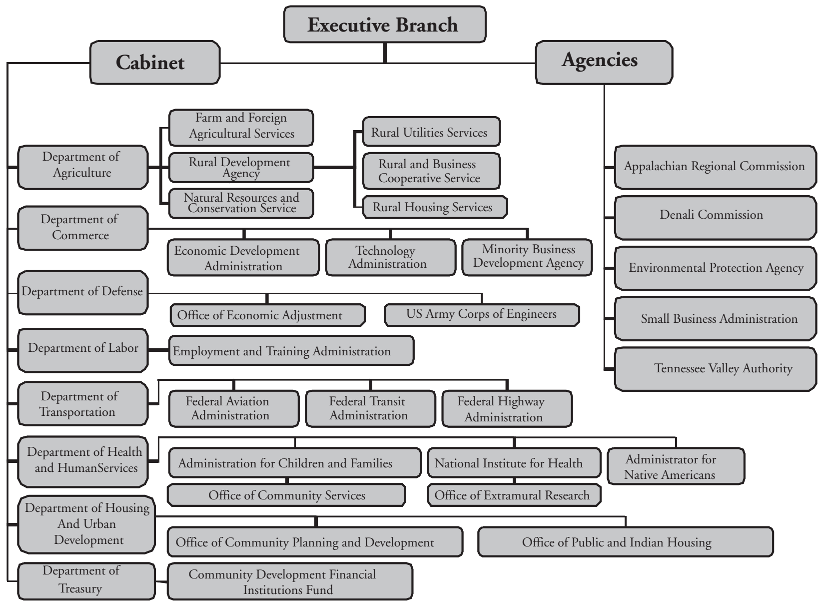
This definition, however, leans heavily on *infrastructure* as the key element in economic development. Today, most experts take a much broader view of how government shapes development. Thus, the GAO list can be expanded to include the following items: workforce training, technical assistance and technology transfer, business development, and forms of infrastructure not included above. In the end, though, it must be admitted that defining federal programs that affect economic development remains more art than science.

The Center's sweep of the federal government turned up 180 programs in all sorts of places. Taken together, what do the 180 programs say about current federal economic development *policy*? To answer that question, two steps are helpful. First, recap the purpose of existing programs and review their legislative roots to provide a collective sense of what the programs are intended to do. Second, follow the money trail of the programs to provide a sense of which federal initiatives policy officials value most.

The federal government's phalanx of development programs suggests a very diffuse economic development policy. The programs lie in virtually every corner of the government, including the Department of Defense (Figure 1). No single department or agency oversees or coordinates the overall effort. In fact, many departments engage in very similar activities. For example, there are three extension services in the federal government—one in the Department of Agriculture, one in the Department of Commerce, and one in the Department of Defense. The 180 programs have grown up around very widely scattered pieces of legislation. Development efforts centered on housing, for instance, occur in four different departments.[1]

Together, these programs lead to two important conclusions about the current federal effort. *First, many of the programs are aimed at building physical infrastructure—such as highways, housing, and airports.* The heavy emphasis on physical infrastructure clearly reflects the 20th

Figure 1
FEDERAL DEPARTMENTS AND AGENCIES



century development principles widely accepted when most of the programs were created. Programs aimed at knowledge infrastructure, which many economists regard as critical to the 21st century economy, are few and far between.

Second, federal policy assumes a development landscape across the nation that is largely homogeneous. Current federal programs are mostly founded on the belief that all regions grow in the same way. More specifically, the vast majority of federal programs appear to assume that most regions will develop as “industrial regions,” hence the emphasis on physical infrastructure. A case can be made that federal policy facilitates smokestack chasing, arguably the most widespread local strategy for economic development.

America’s regional development landscape, however, is no longer homogeneous. It is highly diverse. Economic development strategies are now driven by a region’s distinct economic assets and its unique market opportunities. That will call for industrial development in some regions, to be sure, but in far fewer regions than in the past. Tourism, services, and high technology now blossom as economic engines alongside industry.

In short, federal policy for economic development is a far-flung activity in Washington, spreading across most of the federal government. That is not by accident, though. Hundreds of laws have posited the vast array of programs where they are today.[2] Nevertheless, the reach of the programs is impressive, as is their underlying assumption that America's economic development landscape is largely homogeneous. Much more flexibility will be required for a 21st century development landscape that represents a much richer spectrum of development outcomes.

Another way to characterize federal economic development policy is to follow the money. The Office of Management and Budget, in fact, does just that. One of OMB's 20 broad categories of federal spending is "community and regional development." This captures economic development programs aimed at specific places (what might be called *regional development programs*). It does not capture the full sweep of economic development programs that invest in infrastructure but without a specific place in mind (what might be called *broad-based development programs*).

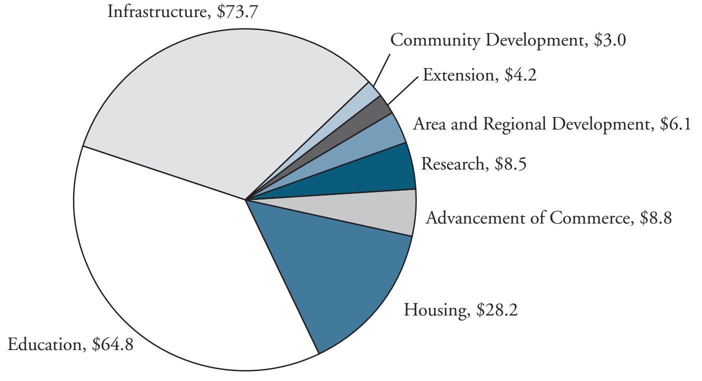
When broad-based and regional development categories are combined, the federal government spends about $188 billion a year on economic development (the annual average for the past five years) (Figure 2). This means that roughly one in every four federal dollars is currently spent on economic development. More than 90 percent of development dollars are spent on broad-based development programs, leaving fewer than one in every ten federal dollars for regional economic development.

Within the broad-based category, more than 90 percent of federal spending goes for infrastructure (including housing) and education. Much of the infrastructure spending goes for the federal highway system, although housing is another big commitment, accounting for about a sixth of federal development dollars. Education is a bit more than a third of development spending, with federal dollars about evenly split between K-12 and higher education. Research is about 5 percent of federal spending on economic development. This category takes into

Figure 2

TOTAL FEDERAL ECONOMIC DEVELOPMENT SPENDING ($BILLIONS)

Annual average for 2000 to 2004

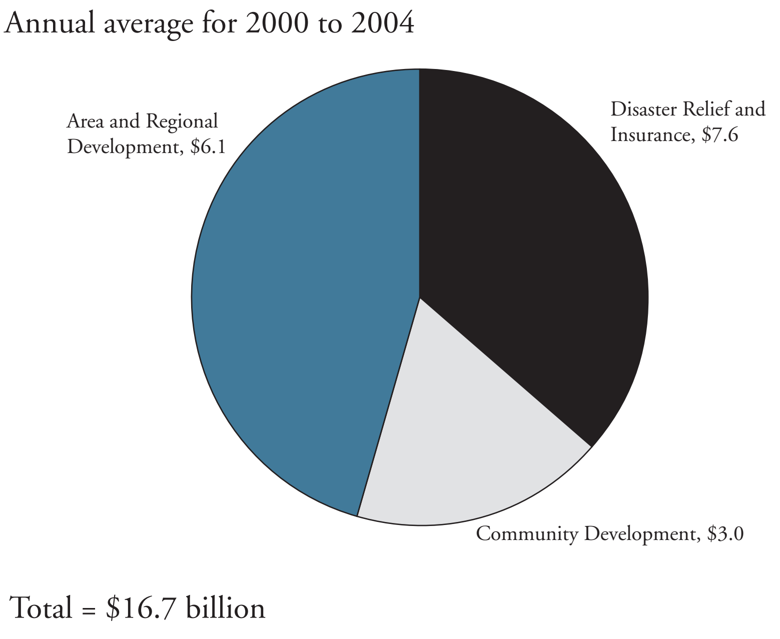


Total = $188.2 billion

account federal research on many areas of science: agriculture, health, transportation, energy, and space, among others. Finally, providing technical assistance and technology transfer through extension programs of various stripes represents half of all that spent on research.

The federal government spends just under $17 billion a year on regional economic development (Figure 3). Yet the federal commitment to *ongoing* development is actually much less. The regional development category includes three subcategories: community development (451), area and regional development (452), and disaster relief and insurance (453). Of total annual federal outlays, $7.6 billion goes to disaster relief and insurance—helping communities recover from tornadoes, hurricanes, and other unfortunate events. Such short-term responses to disaster are important and result in a flurry of construction and associated economic activity. However, such activity aims to *restore* the local economy, not *develop* it. Thus, it seems reasonable to set aside this portion of the budget category if the aim is to focus on regional economic development.

Figure 3
FEDERAL SPENDING ON REGIONAL ECONOMIC DEVELOPMENT ($BILLIONS)



What is left is $9.1 billion aimed at regional and community development (that is, categories 451 and 452). By OMB's tally, two-thirds of this goes to develop broader regions, with a third aimed at specific communities.

In summary, economic development is a major undertaking of the federal budget. With a heavy emphasis on industrial development, funding for physical infrastructure is a high priority. Over the past five years, nearly $190 billion has been spent every year on development—more than one of every four federal dollars spent. Most of this spending goes into broad-based efforts like highways and education, programs that aim to develop the economy broadly, not in any given place. The federal role in programs aimed at economic development in particular places, or regional development, is much smaller. In the past five years, such spending has totaled about $9 billion a year. Much of that has been spent through HUD's Community Development Block Grant program.

III. THE END OF ONE-SIZE-FITS-ALL: THE EVOLUTION IN ECONOMIC DEVELOPMENT THINKING

For a variety of reasons, this is a particularly good time to take a fresh look at the federal role in regional economic development. Globalization is a huge reason why. Globalization is one of the most powerful economic forces of our time. Rapidly shifting global markets are forcing regions throughout the nation—and the world, for that matter—to find new competitive niches. The resulting quest for new economic engines is different in every region, driven by a region's distinct economic assets and the specific markets it can tap.

At the same time, economic experts have discovered a whole new set of strategies that offer the greatest potential in helping regions compete in the global marketplace. These new strategies focus more on the region itself, namely, helping entrepreneurs and skilled workers build on their strengths, innovate, and seize new market opportunities—an approach strikingly at odds with past strategies that aimed mostly at recruiting industrial facilities to a region. Under the old strategy, regional development was often a zero-sum game—one region's gain was often another's loss. As a result, some analysts sometimes styled traditional economic development as an ongoing "economic war among the states" (Burstein and Rolnick 1995).

Economists have been wrestling with economic development for a long time. It remains an ongoing field of discovery, constantly shaped by innovations in markets, technology, and human behavior. While many important questions are still being investigated, consensus is emerging that regional economic development is now driven by principles quite different from the ones that guided practitioners in the 20th century. These new principles have great value for public policy: They serve as a benchmark to evaluate where public policy is today and as a guide to where it might go in the future. This section takes a broad look at the emerging consensus among economists on what drives regional economic growth—and how that consensus has evolved over time.

Table 1
THREE ERAS IN REGIONAL ECONOMIC DEVELOMENT THEORY & PRACTICE

	Industrial recruiting 1950s to early 1980s	Cost competition Early 1980s to early 1990s	Regional competitiveness Early 1990s to present
Driver	Export base	Scale economies	Innovation & entrepreneurship
Strategies	Financial incentives to firms Industrial parks	Industry consolidation & cost-cutting deregulation	Entrepreneurship Clusters Commercializing research
Keys to Success	Government funds for subsidies and tax breaks Industrial infrastructure	Health of existing industries	Distinct regional assets, such as: Human capital Higher Education Amenities

Three eras of economic development

Over the past half century, economic development thinking has passed through three eras (Table 1). While there is considerable overlap among them, the three periods of thinking and practice can be instructive for the future.

Industrial recruiting, often called smokestack chasing, prevailed from the 1950s through the early 1980s. The goal was to do whatever it took to lure a factory to town. This strategy grew out of the economic theory of export base, first put forward by North in the 1950s. This theory essentially looked at economic development from a demand point of view and posited that money must flow into a region for it to grow. The only way to get more money was to export more. This view gave rise to a plethora of subsidies, tax breaks, and other financial incentives from state and local governments to lure companies, often industrial firms, to a particular city or place.

The raft of recruiting practices has lingered into the 21st century, but the theory has moved on. Indeed, much of the recent economic development literature is devoted to critiquing industrial targeting (Bartik). One researcher concludes that industrial recruiting "is based on poor data, unsound social science methods, faulty economic reasoning, and is largely a political activity" (Buss 1994).

The onset of deregulation in the early 1980s ushered in an era of cost competition. Deregulation was a driving force, as policy officials explored ways to drive down the cost of doing business. In many respects, active government involvement in development devolved to states and localities. This "New Federalism" was a critical turning point in economic development and led development practitioners to engage more private sector players in development strategies (Kossy 1996).

Cutting costs was a worthy goal, but increasingly integrated global markets for goods and services raised fresh doubts about its efficacy as a development strategy. Regions quickly discovered that cost advantages can be fleeting in a global market. Huge threats to Detroit's hegemony in autos and Pittsburgh's in steel served as stark reminders that economic development cannot simply be a race to the low-cost bottom. Driving down costs is no guarantee of economic gains when elsewhere in the world costs are dropping even faster.

Since the early 1990s, researchers have recognized that regional economies must constantly create new value in global markets by exploiting their indigenous strengths. This is a complex process, but one that many experts now refer to as *regional competitiveness.* The process is fueled by innovation—an ability to invent ideas and bases of knowledge that can open up new economic vistas. In the same way that automobiles displaced buggy whips, so regions now explore whether fields of pharmaceutical crops can displace commodity corn.

If innovation is the fuel in the process, then entrepreneurs are the engines—turning ideas and knowledge into jobs, income, and wealth. Whereas past development strategies often aimed at big firms, small entrepreneurial companies are the pack mules for economic development in the 21st century.

The importance of innovation in economic growth is not a new idea. Joseph Schumpeter was talking about "creative destruction" nearly a century ago. Over the past decade or so, though, globalization has brought new attention to his concept that vibrant economies are constantly churning, with some firms dying and others being born. Under this view, the key to growth is turning a steady stream of new ideas into successful products in the market.

The regional competitiveness framework has developed in three distinct strands of economic research. Some economists are focusing on the importance of clusters, suggesting that a concentration of similar firms creates synergies that can fuel growth (Porter 1998). Others describe a new economic geography, in which local amenities are critical determinants in creating a pool of skills and capital that can spawn new ideas and businesses to grow a region's economy (Krugman 1991). Still others focus more on entrepreneurs and innovation, arguing that fresh technologies and the right climate can lead to a rich seedbed of businesses, spurring economic gains (Acs and Armington 2004). While each strand has merit in its own right, together they form a strong consensus that regional competitiveness is becoming the accepted model for regional economic growth.

Economic development strategy shifts dramatically when regional competitiveness is the goal. The very root of competitiveness is a region understanding its inherent economic strengths—and the markets available to exploit them. Accordingly, development strategy is moving away from industrial recruitment and being a low-cost competitor to strategies that help regions identify and exploit their distinct assets—things like human capital and scenic amenities.

Three eras of development strategies

These three eras of economic thinking correspond to strikingly different development strategies (Table 1). While economic development practice has not always evolved in step with the research, new knowledge about the economic development process ultimately influences how practitioners and policy officials act.

Industrial recruitment and industrial park construction, for instance, were standard strategies to build a region's export base in much of the postwar period. These programs took full advantage of large, well-funded federal programs that helped keep local recruiting war chests full.

In the 1980s, though, as federal budgets for economic development were tightened and waves of deregulation began, *industry consolidation and cost-cutting* came to the forefront as strategies for regional growth. The health of a region's industries was a critical determinant of economic gains. For instance, the Rust Belt, with a concentration of aging industrial plants, struggled in the 1980s as consolidation swept through autos, steel, and other industries. The Sun Belt, on the other hand, prospered with the emergence of high technology and service industries.

In the 1990s, globalization forced regions to focus on *new sources of competitive advantage.* While new strategies to do that are still emerging, the principal strategy is stoking innovation and fostering entrepreneurs that exploit the region's endogenous assets. Because markets shift so sharply and swiftly, the capacity to innovate and to grow a robust seedbed of entrepreneurs increasingly separates regions that can keep pace from those that cannot. Human capital and the higher education institutions that help create it are crucial assets in this strategy.

The most recent era has been remarkable in that regional strategies are increasingly being shaped by scholarly research. This shift is occurring in part because development practitioners, confronted daily by tectonic shifts in the global economy, are seeking new answers to pressing challenges. But it is also true that economic research is developing frameworks that can more naturally address the often conflicting development choices regions must make. While this emerging synergy between theory and practice is encouraging, it is still more evident in local strategy than in national policy.

In every era, the goal for economic development is the same—a prosperity that lifts the economic and social well-being of the residents in the place in question. While that goal has not changed, the three eras of development thinking highlight vastly different assets and strategies. In the first two stages, the focus was largely *external*—rooted in the belief that forces beyond the region were the drivers of development. By contrast, the current era puts the focus on the *region itself,* recognizing that regions can develop only by exploiting their distinct economic assets, seizing unique opportunities in rapidly shifting markets, and fostering the entrepreneurs that make both happen at once.

Another critical distinction between today and the earlier eras is that economic development is no longer a matter of one economic development strategy applied to all regions—what some might call a "one-size-fits-all" approach. Industrial recruitment was universal. Indeed, the remnants of this strategy still run far and wide. Competing on cost was a similarly far-flung approach. *Regional competitiveness, by contrast, is highly idiosyncratic.* Every region has a different set of economic assets, a unique capacity to innovate, its own crop of entrepreneurs, and its own opportunities in global markets.

While some might argue it has ever been thus, the fact remains that the unrelenting pace of globalization now forces every region to reinvent its economic engine.

In sum, economists have concluded that every region in America must now meet one basic challenge: *the vigorous pursuit of a competitive edge in rapidly changing global markets.* In each case, building and retaining that edge will involve three steps: understanding the region's critical economic assets, identifying the best market opportunities for the region, and crafting a strategy that exploits one to seize the other.

In carrying out this strategy, there are two critical ingredients. Innovation is the new fuel in creating regional competitiveness (Council on Competitiveness 2004). In a global market where the costs of producing basic products is often several times lower in other countries, the key is to find the next *new* product, not compete on the *old* one. Innovation is the fuel to create the new ones.

Entrepreneurs are the second key ingredient. As old products reach a mature phase and competition intensifies, regions need more than the fuel of new technologies and fresh ideas. They also need entrepreneurial engines to drive new growth. Not all of these engines will keep on running, but those that do will define a region's competitive edge in the marketplace.

These two key ingredients have strong synergies. Drucker argues that innovation is the "specific tool of the entrepreneur" and the means by which change and innovation are brought to the marketplace (Drucker 1985). Moreover, he suggests that entrepreneurs can become more proficient in leveraging innovation—that a "purposeful and organized search for change" can yield more and better entrepreneurs. In many respects, the quest for regional competitive advantage is all about a more systematic approach to innovation at the regional level.

IV. FRAMING A NEW FEDERAL POLICY FOR REGIONAL ECONOMIC DEVELOPMENT

While the theory of regional economic development has undergone enormous change, federal policy aimed at economic development has not. Policy still favors the economies of the past. This begs two important questions: Can the goals of federal policy be realigned to fit the new growth paradigm? And what steps can policymakers take to make the realignment work?

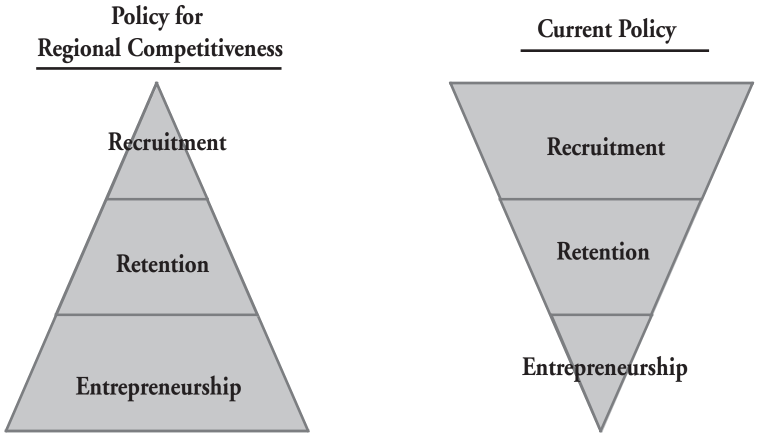
Aligning policy with the new economy

A good starting point for aligning economic development policy with today's economic needs is to determine where policy is now. If regional competitiveness is the new goal, how is the nation's current development policy helping regions compete? The answer emerges at federal, state, and local levels. At the federal level, our review of economic development efforts turned up 180 development programs. Most were enacted with the *industrial* economy in mind, not the *entrepreneurial* economy. Most were created with a homogeneous development landscape in mind—a premise that all regions grow their economies in the same way. In short, many federal programs fail to recognize that innovation and change are the new order of the day, that entrepreneurs have become a much more important driver of regional growth, and that industrial recruitment is no longer the single path to regional development. In practice, this means that federal programs are not flexible enough to accommodate the full spectrum of development challenges facing regions in the 21st century.

At the state and local levels, meanwhile, policy is overwhelmingly aimed at recruiting businesses (Buss 2001; National Council of State Legislatures 2000). The dollars spent on these efforts run into the billions, while the impact is increasingly questioned by analysts (Bartik). Some effort is aimed at retaining existing businesses, with limited attention to stoking innovation or growing entrepreneurs.

Dabson suggests a pyramid to describe a policy framework that supports regional strategies centered on innovation and entrepreneurship (Dabson 2005). Policy is rooted broadly on growing entrepreneurs (Figure 4). Some attention focuses on retaining the businesses in a region. Only a small portion of effort focuses on recruiting, and then only on firms that complement the region's competitive strategy.

Figure 4
A POTENTIAL REALIGNMENT OF ECONOMIC DEVELOPMENT POLICY



Source: Brian Dabson, RUPRI

At the state and local levels, at least, current policy is exactly the reverse of this framework. The entrepreneurial base is simply too narrow for the strategy to be sound. And in a global economy where competitors are everywhere, the cost of recruiting businesses can no longer be sustained.

It is also difficult to fit federal policy into this pyramid structure. Entrepreneurship is a comparatively small portion of the federal effort today. Moreover, due to the heavy federal emphasis on physical infrastructure, state and local governments often view federal programs as justifying their focus on business recruitment.

Put simply, federal, state, and local economic development policies are not currently designed to help regions build and sustain a competitive edge. Changing that will require policy shifts in Washington and in state and local governments. Federal policy is a good place to start, though, since it creates the broadest framing for public policy on economic development. Putting regional competitiveness at the heart of federal policy will align federal policy with what drives regional growth in the 21st century. It will also be the first time that federal policy has really had a unifying goal. In that respect, it should make federal programs both more effective and more efficient, a salutary outcome in a period of large budget deficits.

If helping regions build and sustain their competitive edge is the new goal, how might federal economic development policy shift? Based on what is known today about how regions best build and sustain competitive advantage, three steps may be useful:

- Make regional competitiveness the goal of federal regional development policy;
- Design new efforts to help regions seize innovations and grow entrepreneurs;
- Create a strong delivery system for federal development programs.

Together, these three steps hold the promise of spurring new economic growth throughout America, enhancing the nation's competitiveness, and making policy more efficient in the process.

Make regional competitiveness the goal

Current economic development policy reflects a traditional goal of recruiting and building infrastructure—primarily for an industrial economy. Fresh thought needs to be given to finding the right goal to guide policy in the future.

Based on what is known about what makes regions grow in the 21st century, the best candidate for this goal is the following: *To help regions find and sustain a competitive edge in rapidly changing markets.* This goal would align economic development policy with state-of-the-art economic theory. It would also be consistent with a commitment often reflected in past development efforts—equal access to economic opportunity for all. And it would elevate the need for the nation as a whole to engage what may be its biggest economic challenge—staying competitive on a global stage.

Making regional competitiveness a goal for federal development policy will require constructing a coherent policy framework, rethinking the federal (and state and local) role in regional development, and "proofing" other federal policies for their impact on regions.

By any standard, federal economic development policy today is fragmented. It is the result of decades of initiatives spread across scores of congressional committees and more than a dozen federal departments and agencies. There is no unifying set of development principles for this huge federal effort. Most programs are guided by the law that created them, with few subsequent revisions.

Federal economic development policy needs a unifying purpose and goal. Helping regions build and sustain a competitive edge would bring coherence to federal policy. The goal is critical, since it will align efforts across the federal government and determine the desired results against which the contribution of individual programs can be measured.

Current federal policy for regional development can be likened to the lighting system for a Broadway stage. Federal policy represents a multitude of lights that shine on the actors of economic development and spur them on to better performance. But today's lights are not aimed with the diverse economies of 21st century regions in mind. Instead, the lights brighten only a *few* parts of the stage—mainly the actors of the past. Such a lighting system favors industrial regions that are still chasing smokestacks.

The new economy needs a new lighting design. The stage has many more actors on it—high-tech regions, service-producing regions, tourism regions, and so on. Making regional competitiveness the goal of federal policy for regional development would force federal stage hands to come up with a better design—one that recognizes all the regional actors, not just a few.

Other countries are taking steps to devise new lighting systems. Australia, for instance, has made regional competitiveness a goal for all of its states. In carrying out that initiative, the federal government reinvented its Ministry of Transport, making it a new home for regional development policy (Key 2005).

Setting regional competitiveness as the goal for U.S. federal development policy would bring with it the need to find new ways to monitor and evaluate the performance of federal programs. While there is still debate among policy officials and economists on how best to evaluate the performance of public policies in a regional competitiveness framework, there is little debate on the ultimate goal of raising the prosperity of the residents in a region.

Monitoring programs on their performance against a common goal of boosting regional competitiveness holds the promise of reducing the cost of federal development policy. As shown in Section I, programs like housing, workforce training, and business development are currently sprinkled across Washington. The goal of boosting regional competitiveness may shed light on unnecessary duplication of effort.

Federal involvement in regional economic development today is founded largely on the belief that most regions grow in the same way. Globalization has brought that era to an end. Today, each region must craft its own strategy to be competitive. Federal government can help regions execute such policies, but the real answers are no longer in Washington—they lie in the regions themselves.

Regional development is no longer top-down—it is mostly bottom-up. The new reality essentially turns economic development policy on its head. To borrow again the analogy of Broadway, Washington becomes more of a supporting actor in regional growth, while regional leaders become the actors at the center of the stage.

In light of this shift, in what areas can federal policy make the best contributions? The central issue here is dividing up regional competitiveness policy into two parts—the federal part and the state and local part. The essential question is identifying comparative advantage across levels of government.

If regional competitiveness is the goal, in what areas can federal government make the best contribution? Economists have not yet studied this area in depth, but in light of the longstanding principles of equity and efficiency, there appear to be five roles worth exploring.[3] Spurring innovation in regional governance is of growing importance, especially for regions that spill across state lines. Investing in the leadership capacity of regions will also be important, since the ability to respond to globalization is not even across the nation. Federal government will continue to invest in public goods, such as highways, but it will be critical for such investments to align with the unique strategy of individual regions. Some regions may need highways, but others may put a premium on other federal investments. Federal investment in basic research will be valuable in a knowledge-driven economy. Finally, crafting a national policy on entrepreneurship may be a new priority given the importance of entrepreneurs in driving regional growth.

What roles can state and local governments play in making regions more competitive? In a regional competitiveness policy framework, the roles for state and local governments will be quite different than the role for Washington.

Six roles for state and local governments are promising areas to explore. Building effective structures for regional governance will fall principally to state and local government. Ensuring partnerships across public and private sectors will be a critical dimension to effective governance. State and local government may also be able to develop tools that help regions understand their unique complement of economic assets, a critical first step in crafting effective development strategy. Similarly, state government may be able to develop effective analytical tools that help regions diagnose their competitive advantage, often a difficult task today. Creating effective entrepreneurial development systems will be another good opportunity for state and local governments. Finally, state governments may be able to boost innovation by linking public research discoveries with emerging regional development strategies. Such linkages are few and far between today.

Another consideration in making regional competitiveness the goal of federal economic development policy is to understand better the impacts of other policies on regional growth. Many federal policies, and especially health and education, will be supporting actors in the playing out of any new federal policy on regional development. Thus, it is important that differential impacts across regions become a critical dimension in crafting and evaluating them, too.

"Proofing" is a concept that many analysts now use to describe a systematic effort to identify the spatial impact of public policy. The goal of such analysis is to determine if a particular policy affects one region (or type of region) differently than another. The underlying assumption is that such differential impacts can influence a region's strategy for competitiveness in both positive and negative ways.

The concept has gained adherents in many quarters. In 2002, for instance, the Department of Health and Human Services completed an ambitious review of how all of its many programs affect rural areas (U.S. Department of Health and Human Services 2002). The hope was to identify ways to ensure that rural areas have access to high-quality, affordable healthcare. Proofing is becoming standard practice in other countries that are giving greater attention to regional development policy. The UK, for instance, has implemented broad-ranging procedures to proof policies for the impact on rural regions (U.K. Department of the Environment, Transport, and the Regions 2000).

Design new efforts to spur innovation and grow entrepreneurs

To grow, regions must have the capacity to innovate and grow business enterprises. While the federal government touches both, it does so in an ad hoc way and with no clear connections drawn to regional economic growth. To be sure, state and local governments will shoulder an important role on both fronts.

Nonetheless, if regional competitiveness were to become the defining framework for federal development policy, then new policy efforts on innovation and entrepreneurship will be an important part of the policy mix. Crafting a new national policy on entrepreneurship and re-engaging higher education institutions are two clear steps in this direction.

Entrepreneurs will be critical drivers of regional competitiveness in the coming years. While the nation's commitment to supporting small businesses now stretches back 50 years, federal policy has not yet embraced the broader concept of entrepreneurship. Simply stated, entrepreneurship involves far more than simply managing a small business.

Many experts believe the time has come to craft a national policy on entrepreneurship. The National Commission on Entrepreneurship's comprehensive study on the links between public policy and entrepreneurship is a leading example of this point of view (NCOE 2002). They identified five policy arenas where federal action has a big impact on entrepreneurship:

- Create financial markets for entrepreneurial growth companies (EGCs).
- Invest in basic research and development, while protecting intellectual property for technologies that underlie many EGCs.
- Invest in technically talented people and encourage mobility.
- Open new markets and help EGCs enter them.
- Establish a robust and dependable infrastructure.

Obviously, the federal government has been doing a lot in all five areas—from regulating the NASDAQ stock exchange to funding life science research. The real policy issue, however, is whether federal policy is paying attention to the sum of the parts—and to unintended gaps or conflicts in the disparate policies. If entrepreneurship is critical to competitive regions, then lifting up this priority through a coherent national policy makes sense.

A related issue is providing better data and benchmarks to track national and regional progress in growing entrepreneurs. Very little information about entrepreneurs is publicly available. In the words of the NCOE study, current entrepreneurial indicators are "dated, incomplete, and off-target." Their report urges the federal government to invest in a system to collect and disseminate data that will "describe the entrepreneurial economy in real time."

State and local governments also have an important role in any national policy on entrepreneurship. Experts believe that entrepreneurs will need public and private support in developing the core skills needed to succeed (Lyons 2003). The problem is that today's efforts to help entrepreneurs are ad hoc and uneven. To succeed, Lyons believes that support must be "regional in scope and systematic in approach." He compares growing entrepreneurs to running a minor league baseball team. In both cases, great coaches are needed to develop raw talent.

If innovation is the fuel for regions to reinvent their economies, higher education is a critical source of that fuel. Education and training programs play a big role in creating human capital, an essential ingredient in robust regions. But the question getting more attention now is whether public universities and colleges can support economic development in ways that engage the specific economic needs of regions (Jischke 2004). Educated students are highly mobile. University programs that aim to help regions build new economic engines are much more focused on the place in question.

If anything, public universities have become less engaged in regional economic development in recent years. This is largely a matter of funding. Most state universities receive a smaller share of their funding from their host state than in the past. Meanwhile, a growing share of total funding is derived from grants received from sources well beyond the state, including federal sources (the National Institutes of Health, for example). It is not surprising, therefore, that universities pay more attention to excellence in research—which attracts even more grants—than how that research might impact the economy of regions in their own state.

Moreover, public universities are typically organized around disciplines and sectors. Land grant universities, for instance, have colleges of agriculture, where scientists cluster by scientific specialty, and agricultural experiment stations, where all the agricultural research is concentrated. Building competitive rural regions, however, is not limited to a single discipline or sector (Jischke 2004). Rather, regions must draw on every asset in the region, often combining skills and entrepreneurs in innovative ways.

Public universities have enormous resources that can help regions, but new incentives and institutional arrangements are needed to unleash these resources. Fortunately, innovative models are emerging. Purdue University has consciously recognized the "innovation fuel" that the campus holds for the Indiana economy in the form of new technologies (Purdue University 2004). Working with the state legislature and Hoosier businesses, Purdue created an "innovation commons" at the heart of its campus called Discovery Park. This serves as a place to identify technologies with special promise for commercialization in the state. To ensure that these technologies promote growth throughout the state, though, Purdue took one additional step. They created the Office of Engagement and the Center for Regional Development to ensure that university resources "engage" new regional economic development efforts.

Large public universities are not the only place where higher education can make a difference in regional development. Community colleges and regional universities in many ways represent the "front lines" in spurring innovation in regions (Sertich 2004). Such institutions have a natural stake in spurring economic growth in their region, since they depend on the region for both students and funding.

Due to this synergy, economic development should be a core mission for community colleges and regional universities. There is an encouraging trend in this direction. Creating a region-wide governing structure for its community colleges proved to be the start of an ambitious new regional development effort in the seven-county Arrowhead region of northeast

Minnesota. Northwest Missouri State University has been the catalyst in a new bid to create a life science cluster in their otherwise farm-dependent region. The community college in Walla Walla, Washington, was a catalyst in developing a new wine industry in the valley.

Create a strong delivery system for federal development programs

Finally, creating a strong delivery system for federal programs will be critical to ensuring that regional development policy is effective. As mentioned earlier, the federal development effort currently flows through 180 programs. In most cases, these programs flow through a different network of regional offices throughout the nation and often have different standards for evaluating performance. This adds to the cost of the programs.

Regardless of the direction federal economic development policy may take in the future, programs must be delivered to the regions themselves. In the past, the federal presence throughout the nation has developed strictly along department lines. From the point of view of helping regions compete, however, geography matters more than the department. (This is the same dilemma facing large public universities—regions are becoming more important, but the university is organized around single colleges). The region needs a variety of funds and supporting services from Washington, but it is less interested in which department's regional office they flow. Thus, a comprehensive review of the "geography" of existing federal offices throughout the nation would likely yield constructive opportunities to make the overall network more effective.

More fundamentally, clear standards for evaluating the performance of federal programs will be essential to making federal policy effective. Several federal agencies involved in economic development have made significant strides in setting clear standards for monitoring and evaluating results from federal programs aimed at regional development. For instance, EDA has developed new evaluation metrics to gauge the impact of its grants (EDA 2003). Economists are working on other metrics that may gain acceptance in Washington (Robinson and Johnson 2005). Such standards are critical for ensuring equity of administration across regions and for ensuring that federal dollars are put to good use. With so many federal economic development programs in Washington today, however, it is not surprising that there are scores of metrics for measuring performance. A major feature of moving to a more coherent federal policy will be establishing common metrics for measuring performance.

ENDNOTES

[1]A full description of the 180 programs can be found in the appendix of Drabenstott 2005.

[2]The legislative history of federal economic development policy is detailed in the appendix of Drabenstott 2005.

[3]For a full discussion of the equity and efficiency principles and the possible roles for federal, state, and local policy, see Drabenstott 2005, pp. 56-63.

REFERENCES

Acs, Zoltan, and Catherine Armington. 2004. "The Impact of Geographic Differences in Human Capital on Service Firm Formation Rates," *Journal of Urban Economics*, vol. 56, pp. 244-78.

Bartik, Timothy J. 2004. *Incentive Solutions*, WP04-99, *www.upjohninst.org/ecdevhub.html#wp*.

Blair, John. 1995. *Local Economic Development: Analysis and Practice*. Thousand Oaks, California: Sage Publications.

Blakely, Edward J., and Ted K. Bradshaw. 2002. *Planning Local Economic Development: Theory and Practice*, 3rd ed. Thousand Oaks, California: Sage Publications.

Burstein, Melvin L., and Arthur J. Rolnick. 1995. "Congress Should End the Economic War Among the States," *The Region*, March.

Buss, Terry F. 2001. "The Effects of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature," *Economic Development Quarterly*, vol. 15, issue 1, February, pp. 90-105.

Cheshire, Paul C., and Edward J. Malecki. 2004. "Growth, Development, and Innovation: A Look Backward and Forward," *Regional Science*, vol. 83, pp. 249-67.

Council on Competitiveness. 2005. "Council on Competitiveness: Regional Innovation," retrieved April 5, 2005 from *www.compete.org/nri/*.

Dabson, Brian. 2005. "The Meaning of Entrepreneurship," paper prepared for the Texas Entrepreneurship Summit, March 29.

Drucker, Peter F. 1985. *Innovation and Entrepreneurship: Practice and Principles*. New York: Harper & Row.

Economic Development Administration. 2004. "EDA: Results Driven Performance."

Government Accountability Office. 2000. "Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities," GAO/RCED/GGD-00-220.

International Economic Development Council. 2005. *Economic Development Reference Guide*, retrieved April 4, 2004, *www.iedconline.org/?p=Guide_Overview*.

Jischke, Martin C. 2004. "Adapting Justin Morrill's Vision to a New Century: The Imperative of Change for Land-Grant Universities," presented at the annual meeting for the National Association of State Universities and Land-Grant Colleges, San Diego, November 14.

Key, Wendi. 2005. Paper presented at OECD conference, "New Approaches to Rural Policy: Lessons from Around the World," Washington D.C.

Kossy, J. 1996. "Economic Restructuring and the Restructuring of Economic Development Practice: A New York Perspective, 1985-1995," *Economic Development Quarterly,* vol. 10, pp. 300-14.

Krugman, P. 1991. "Increasing Returns and Economic Geography," *Journal of Political Economy*, vol. 99, pp. 483-99.

Lyons, Thomas S. 2003. "Policies for Creating an Entrepreneurial Region," *Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs*, conference proceedings, pp. 97-105. Federal Reserve Bank of Kansas City.

National Commission on Entrepreneurship. 2002. "American Formula for Growth: Federal Policy & the Entrepreneurial Economy, 1958-1998," Ewing Marion Kauffman Foundation, October.

National Council of State Legislatures. 2000. "Targeted Tax Incentives," retrieved April 5, 2005, *www.ncsl.org/programs/econ/targeted.htm.*

Porter, M.E. 1998. "Clusters and the New Economics of Competition," *Harvard Business Review*, vol. 76, no. 6, pp. 77-90.

Purdue University. 2004. "Purdue University: An Engine for Economic Development," *www.purdue.edu/president/pdf_reports/econdevelbrochure.pdf.*

Robinson, Dennis, and Thomas G. Johnson. 2005. "A User's Guide to the Socio-Economic Benefit Assessment System (SEBAS)," University of Missouri-Columbia, Community Policy Analysis Center Working Paper, January.

Sertich, Joseph M. 2004. "New Governance in Action: The Minnesota Arrowhead Model," *New Governance for a New Rural Economy: Reinventing Public and Private Institutions*, Conference Proceedings, Federal Reserve Bank of Kansas City, pp. 9-24.

UK Department of the Environment, Transport, and the Regions. 2000. "Our Countryside: The Future: A Fair Deal for Rural England," retrieved April 5, 2005, at *www.defra.gov.uk/rural/ruralwp/whitepaper/default.htm.*

U.S. Department of Health and Human Services. 2002. "One Department Serving Rural America: HHS Rural Task Force Report to the Secretary," July, retrieved April 5, 2005, *http://ruralhealth.hrsa.gov/PublicReport.htm.*