Economic Development Lessons from "Ground Hog Day"

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Remember the movie Ground Hog Day with Bill Murray? He kept waking up on the same day, doing the same things over and over again with the same bad results? Do you ever feel that way working in economic development? But wait a minute, do you also remember that Bill's character finally started realizing that if he just started making smarter choices, he could change the outcomes to get what he wanted (I think he eventually became a nicer guy and even won over the female journalist!).

So what are the smart choices in economic development? Austrian and Norton (2002) completed a study on "What Works in Economic Development Practise" and measured outcomes such as impact on jobs, wages, taxes, property values, new businesses and business expansions that resulted from a variety of economic development strategies.

They found that the following strategies had the most positive impact on economic growth in some regions of the US.:

- Loan guarantee funds – result in more jobs and increased local tax revenues.
- Micro /Small business loans and local venture capital to people that don't qualify for traditional loans – result in more jobs, more local taxes, leveraging other public and private investment.
- Revitalization of commercial districts – result in increased property values, new companies, business expansions and new and retained jobs.
- School to work programs – result in more students/youth interest and awareness of local jobs, connecting with local employers, going on to post secondary, reduced absenteeism and higher employment rates.
- Technical assistance to small and medium size manufacturers and other businesses (e.g. Pennsylvania Industrial Resource Centres, New York Manufacturing Partnership, Ben Franklin Partnership program) – result in more jobs, higher business profits, increased labour productivity and cost savings, improved business and manufacturing processes, higher salaries, higher local tax returns.

According to the authors, the following strategies bring positive economic returns, but results are not always positive, or are long term:

- Business Incubator – the primary outcome is education for new entrepreneurs but they do provide a small amount of job creation. Incubators are not usually self sustaining and rarely profitable for the organization.
- Tax Increment Financing – when the local government uses anticipated future tax increases on a specific property to help finance projects within that specific area of the community. This does provide a positive impact on property values, but often at the expense of other areas that may also be in need of public financing support.

So what didn't work?

- Firm specific incentives and Enterprise Zones – e.g. providing tax rebates for companies to move to a community, or supporting an industry specific "zone". They usually result in very small impact on economic growth and most often result in a negative net tax return. They also tend to have a negative economic impact on the rest of the community (reduced government expenditures on other programs and services in order to pay for the incentive).

In their article "The Winner's Choice: Sustainable Economic Strategies for Successful 21st Century Regions", Partridge and Olfert (2011) confirm that incentives don't work and provide some other suggestions for communities and regions that really want to make an impact. They found that small communities are still competing against each other rather than working together, often by using incentives to try to out bid each other resulting in a lose-lose

situation for the community and the regional economy. They also found that local politicians tend to want a quick economic fix resulting in strategies that focus on going after the latest economic development fad or craze like biotechnology or green jobs, most often with bad results.

They suggest that real economic growth takes time, and that communities are smart to build from within using business retention, expansion and local entrepreneurship, all things that are supported in the strategies that "work". They also suggest that communities need to work regionally and understand that knowledge will be the key catalyst for economic growth in the future. This means that communities that "do" economic development with their neighbours, focus on solid long term economic development strategies that provide real economic growth, and build communities with an attractive quality of life will be the winners.

Just like Bill Murray learned his lesson, we can help our communities choose strategies and targets that really work and provide the most positive economic impacts and outcomes!

References:

1. Austram, Z. & Norton, J., "What Works in Economic Development Practice", Centre for Economic Development, Maxine Goodman College of Urban Affairs, Cleveland State University, August, 2002.
2. Partridge, M.D. & Olfert, M. Rose, "The Winners' Choice: Sustainable Economic Strategies for Successful 21st Century Regions", Applied Economic Perspectives and Policy, Oxford University Press (Summer, 2011), 33(2): 143-178.