Economic Development Principles

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<u>Economic Development Principles</u> February 21, 2012

1. In good times, it is important to stick to sound principles of economic development, though you may be tempted to do something more adventurous.

   In hard times, it is <u>more</u> important to stick to sound principles of economic development, though you may be tempted to do something more desperate.
   (The *"desperate times call for desperate measures"* idea*)*

2. Economic development professionals are investing the taxpayers' money to get the best return for the most taxpayers.
   (The "g*reatest good for the greatest number*" principle)

3. Return On Investment (ROI) is measured in good jobs and sustained economic growth. *(Indicated by population growth, rising median income, decreasing proportion of poor people, increasing industrial diversity)*

4. Economic <u>activity</u> is not the same thing as economic <u>growth</u>. *Activity* measures value circulated; *growth* measures value added.

   Circulating more widely (some might say more fairly) the money you've already got is better than not circulating it, but not nearly as good as adding to it.

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<u>In evaluating an economic development investment, the questions to ask are</u>:

1. **Is there some reason why this business is more likely to grow <u>here</u>** rather than somewhere else, *<u>other than the amount of taxpayer money invested</u>.* You can only build on a foundation ... existing strengths, however hard they may be to perceive.

   Otherwise, you're just giving bribes … and subject to extortion.

2. **Does this generate jobs for the taxpayers?** Preferably the taxpayers who most need a job. And, while attracting *new* taxpayers with new jobs is beneficial, benefit to the taxpayers who already paid in the money you are investing takes priority.

3. **Will it become rooted here?** The best investments are in infrastructure and enterprises that cannot easily up and move.

   The more the public investment fosters investment by its beneficiary(s) in facilities that cannot easily be moved ("sunk costs"), the better.

   The same applies to jobs: investments in building the skills of the workforce are best if those workers won't have to move away to advance their careers.

4. **Does it build up other enterprises already in the area?** … as suppliers, or peers using similar technologies and skills, or businesses serving similar markets that can collaborate.

5. **Is there accountability** by the people you are investing in for producing the benefits that the taxpayers have been promised – good jobs and sustained economic growth?

6. **Will it last?**

7. **Is it better than the alternative?** (a.k.a. the "opportunity cost")
When it comes to evaluating alternatives:

   a. Investments that support multiple industries are best. For example, a good education system, a good road system, a good Internet conductivity system.

   b. Investments that serve multiple enterprises within the same industry are next best. For example, a good workforce training system, product distribution facilities, international marketing help.

   c. Investments in one key enterprise that enhances the prospects of related businesses that you've already got are next best. For example, a keystone manufacturer.

   d. Investments in a single project without the sure prospect of more follow-on projects are least promising.

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Other matters to consider are:

Fiscal impact. To what extent does the activity stimulated add back to the treasury what has been lost to the subsidy?

Does this investment result in added people on the tax rolls and increased property (tax) values?

Can you measure the purported benefits of this investment? Who will do the measuring, and how? Will they actually do it, and make the results available to all stakeholders?

Will public investment now lead to an industry that can sustain itself in the future without more public investment, and how soon?

Is the benefit proportional to the cost? What's the cost per job or taxes generated?

Further thoughts:

Any investment must fit your broader, longer-term strategy … and you need to have one.

As with personal investing, you need to understand the industry you are investing in to know whether this particular investment is likely to pay off.

Rather than old wine in new skins, you are looking to put new wine in old skins. Build on your legacy. Think about, not just the assets of your region, but of adjoining regions (even those in adjoining states) as well.

What are your economic development professionals accountable for? Has the quest for a (mythical) "service economy" reduced their accountability for building up specific industries? Are they accountable only for serving a vague "business community" and fostering a vague (and frequently exploitative) "business climate"?